

# **Exhibit 1**

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IRICO GROUP ELECTRONICS COMPANY LIMITED



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# Corporate Profile

## 1. Introduction

IRICO Group Electronics Company Limited (the “Company”) was incorporated in Xianyang, Shaanxi Province, the People’s Republic of China (the “PRC” or “China”) on 10 September 2004. It was established with the contribution made by IRICO Group Corporation, the controlling shareholder and sole promoter of the Company, in respect of its assets of production and sales of color picture tubes (“CPTs”) in its related core businesses and, the equity interests in its eight subsidiaries engaged in related operations. The Company’s H Shares were successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 20 December 2004.

The Company and its subsidiaries (the “Group”) are the largest CPTs manufacturer in China and one of the world’s major CPTs and CPT components manufacturers. We also have the longest operating history amongst all CPTs manufacturers in China, with over 20 years of experience in CPTs production.

CPT is the core component of a cathode ray tube (“CRT”) television set, accounting for about 50% of the aggregate cost of all of the components of a CRT television set. The Group manufactures CPTs with various sizes ranging from 14” to 29” and a majority of CPT components, including glass bulbs, electron guns, deflection yokes, shadow masks and their frames as well as phosphor and frit.

Major customers of the Group include TCL, Skyworth, Konka, Changhong and Hisense, which are major television producers in China.



## 2. Corporate information

### Executive Directors

Ma Jinquan	Chairman
Tao Kui	Vice-chairman
Xing Daoqin	President
Guo Mengquan	Executive Director
Zhang Shaowen	Executive Director
Yun Dajun	Vice president and chief financial controller

### Non-executive Director

Zhang Xingxi	Non-executive Director
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### Independent non-executive Directors

Feng Fei	Independent non-executive Director
Xu Xinzhong	Independent non-executive Director
Feng Bing	Independent non-executive Director
Wang Jialu	Independent non-executive Director
Zha Jianqiu	Independent non-executive Director

### Place of business in Hong Kong

Room A, 29th Floor  
No. 133 Wanchai Road  
Hong Kong

### Principal bankers

Industrial and Commercial Bank of China (Xianyang Branch)  
Construction Bank of China (Xianyang Branch)  
Industrial and Commercial Bank of China (Xi'an Advanced Technology Development Zone Branch)  
Industrial and Commercial Bank of China (Xi'an Branch)

### Legal adviser

Baker & McKenzie  
14th Floor, Hutchison House  
10 Harcourt Road  
Hong Kong

## Corporate Profile

### 2. Corporate information (*continued*)

#### Joint Company secretaries

Zhang Chunning  
Ng Yuk Keung

#### Audit committee

Zha Jianqiu  
Feng Bing  
Feng Fei  
Xu Xinzhong  
Zhang Xingxi

#### Authorised representative

Yun Dajun  
Zhang Chunning

#### Auditors

PricewaterhouseCoopers

#### Registrar of H Shares

Computershare Hong Kong Investor Services Limited  
Room 1712-1716, 17th Floor, Hopewell Center  
183 Queen's Road East  
Hong Kong

#### Legal address in the PRC

No. 1 Caihong Road  
Xianyang, Shaanxi Province  
The People's Republic of China  
Postal code: 712021

#### Company website

[www.irico.com.cn](http://www.irico.com.cn)

#### Investor and media relations and annual report production

Wonderful Sky Public Relations and Financial Consultant Company Limited  
Unit 3103, 31st Floor, Office Tower  
Convention Plaza, 1 Harbour Road  
Hong Kong

# Financial Highlights

## 1. Results

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3,293,021	3,999,378	4,269,781	4,949,683
Profit before taxation	152,868	510,923	623,116	650,250
Taxation	37,292	129,891	173,936	134,468
Profit after taxation	115,576	381,032	449,180	515,782
Minority interests	41,265	103,929	133,355	130,455
Profit for the year	74,311	277,103	315,825	385,327
Earnings per share	RMB0.05	RMB0.18	RMB0.21	RMB0.25

## 2. Assets and liabilities

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	3,227,142	2,949,965	2,576,435	3,574,985
Current assets	3,317,068	3,475,841	2,899,241	3,528,199
Shareholders' equity	2,626,643	2,816,132	2,179,758	3,042,450
Minority interests	845,060	912,836	1,007,160	1,128,866
Non-current liabilities	491,847	385,357	14,769	11,294
Current liabilities	2,580,660	2,311,481	2,273,989	2,920,574

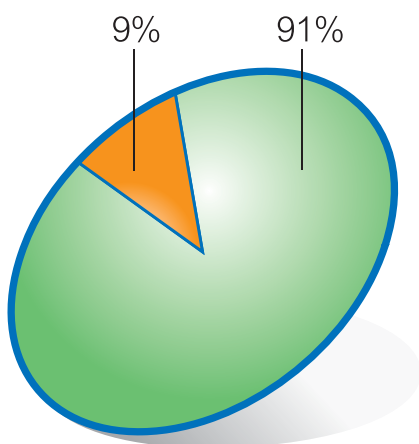
## 3. Operating indices

	<b>2003</b>	<b>2004</b>
Gearing ratio	42%	41%
Current ratio	127%	121%
Interest cover (times)	12	11
Account receivables turnover (days)	108	93
Inventory turnover (days)	78	86



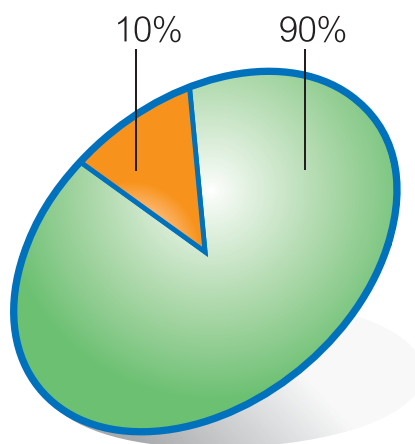
#### 4. Turnover distribution by products

**2003**



● CPTs  
● CPT components

**2004**



● CPTs  
● CPT components





## Chairman's Statement



Dear shareholders,

The Company was incorporated following the restructuring on 10 September 2004 and its H Shares were successfully listed on 20 December 2004 on the main board of the Stock Exchange. I am profoundly honoured to be recommended with trust by the Directors to take the position of the Chairman of the first Board. The successful listing of the Company's H Shares is a milestone symbolising the Company having entered into a new phase of development. However, we can sense that the Company will face many different various kinds of challenges in its future development. For this, I deeply feel the great responsibility to be borne by me.

### Overview of results

Last year, the Group continued to take the lead in the colour CPTs market in the PRC and its global market share further expanded. Capitalising its scale advantage, unique cost leverage as a result of its complete support, flexible manufacturing system, all-round product mix, solid customer base and efforts of the Board, management and all employees of the Company, the Group achieved an encouraging operation results and maintained a high profit margin, kept a stable growth in the production, sales and profit of its principal operation colour CPTs and CPT components, though faced by declining prices of CPTs as well as rising prices of certain raw materials.

For the year ended 31 December 2004, the Group sold approximately 13,674,000 sets of colour CPT in aggregate, representing an increase of 23.1% over last year; realised sales revenue of RMB4,949.683 million, representing an increase of 15.9% over last year; Net profit RMB385.327 million, representing an increase of 22% over last year. Earnings per share is RMB0.25. The overall gross profit amounted to 21.3%.

**Chairman's Statement****Business review**

2004 was a remarkable year for the Company, as the Company completed its restructuring and stepped into the international capital market within the year. The Company's H Shares were listed on the main board of the Stock Exchange on 20 December 2004, issuing a total of 485,294,000 H Shares (including sale of 44,120,000 State-owned legal person shares) and raising a total fund of HK\$766.8 million (including raised fund of HK\$69.7 million from sale of 44,120,000 State-owned legal person shares).

In the past year, the Group continued to strengthen its colour CPTs operation and optimise its product structure. A production line for 21" colour CPTs with an annual production capacity of 2 million set of CPTs was established. The Group also utilised technology renovation to enhance the existing production capacity and product mix of the production line of colour CPTs. Besides, the production line of super large sized CPTs with high definition is under smooth construction. Further, in respect of CPT components, the Group continues to enhance the production capacity of key CPT components. The accomplishment of the supportive projects of glass bulb and shadow mask further reinforced the cost leverage of the Group. Meanwhile, the proportion of external sales of CPT components grew steadily. The sales revenue from CPT components in 2004 increased by 26.5% compared with 2003. In addition, the research and development of the new products of PDPs, colour CPTs, CPT components progressed smoothly, creating satisfactory conditions for the on-going development of the Group.

**Future prospects**

As the PRC macro-economy is expected to maintain its speedy growth, the disposable income of the general population in the PRC will hopefully increase continuously. This is expected to drive the demand for colour television sets, thus the demand for CPTs will increase accordingly. Integration in the industry will bring about further opportunities for the Group. As production lines of CRT television sets and CPTs in Europe and America shut down and the trend of moving such production lines to developing countries such as the PRC continues, the PRC's role as the centre for manufacturing of colour television sets and CPTs in the world will be further enhanced. The PRC's status as a global manufacturing center for colour television sets and colour CPTs will be further strengthened. The export of colour television sets and CPTs in the PRC will keep growing fast and the Group has excellent prospects for future development.

**8**

However, competition in the display industry is becoming intense with declining prices for flat panel television sets as well as the increasing performance. The challenge posed by the development of flat panel display to CRT market will be ever more striking. CRT televisions and CPT industry are facing with intense competition more than ever. Particularly at the beginning of 2005 with sluggish market demand, the price of CPTs further declined while the cost of certain raw materials increased.

Facing a market environment with opportunities and challenges, the Group will fully utilize its competitive leverage to grasp every chance in the coming time. We will mobilise all the employees, economise operations and innovate technology to lower cost as well as to optimise the product mix. The Group strives to develop overseas market and step into global competition with low cost and high quality products, consolidating the leading position of the Group in CPT industry in the PRC, and endeavors to increase its global market shares. Also, the Group will proactively research and develop technology for flat panel display device such as PDPs. By being persistent, accumulating capability and capitalising on opportunities, we will continue to grow.

## Acknowledgement

I have pleasure to extend the gratitude on behalf of the Board to the shareholders, business partners and every sector for their care and support to the Company. I also desire to express my heartfelt gratitude to all management and employees for their dedicated efforts at work. I wish we can exert out synergetic endeavour to overcome various kinds of difficulties in order to achieve the business target of the Company in the coming year.

**IRICO Group Electronics Company Limited**

**Ma Jinquan**

*Chairman*

Xianyang, the PRC

24 March 2005





# Management Discussion and Analysis

## 1. Industry review

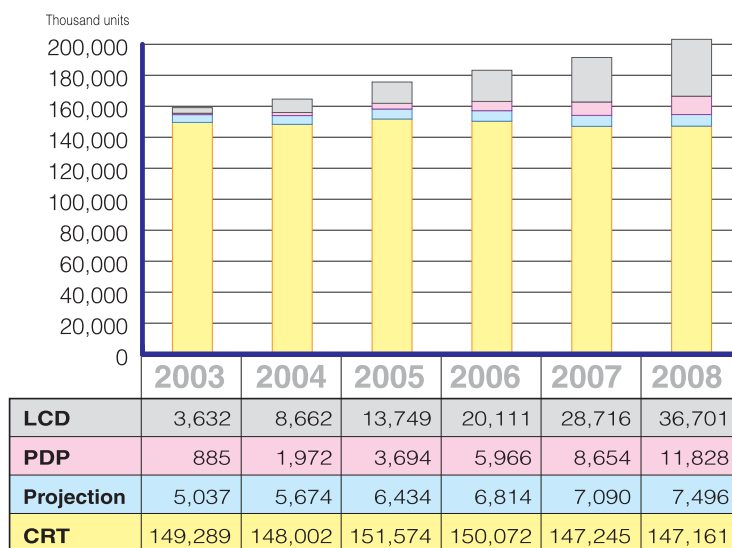
With the recovery in global economy and the increasing consumption as well as the successful holding of Greece Athens Olympics, the global colour television set market maintained a steady growth in 2004. According to the "Television Systems Market Tracker — Q4 2004" published by Stanford Resources in December 2004, global market sales of colour television sets in 2004 increased by 3.4% to 164 million units as compared with 2003. In 2008, the sales volume of global colour television sets is expected to amount to approximately 203 million units with a compound annual average growth rate of 5.3%.

Despite the noticeable decline in prices of FPD television set and its performance improved during last year, prices of FPD television set are still substantially higher than those of CRT television set of the same size. Most of consumers prefer to choose CRT television set, as there is apparent gradient consumption of colour television set and in terms of overall performance, FPD television set has no noticeable advantages as compared with CRT television set which owns cost performance advantages, although weakened. According to Stanford Resources, CRT television set continued its dominance in the global colour television market in 2004 with sales volume of approximately 148 million units, representing approximately 90% of the total global sales volume for 2004. In 2008, sales volume of CRT television sets is expected to amount to approximately 147 million units, representing 72.4% of the total global sales volume for that year.



## 1. Industry review (*continued*)

**Worldwide Sale Forecast for TV Sets Using Different Technologies**



*Resource: Stanford Resources, December 2004*

With its fast-growing economy, the PRC's GDP for 2004 amounted to RMB13,651.5 billion, representing an increase of 9.5% over last year based on comparable prices. In addition, residential income maintained a steady growth. Following the implementation of series of policies to improve farmers' income and alleviate their burden, farmers' income increased considerably. According to the Chinese National Bureau of Statistics, farmers' income for 2004 amounted to RMB2,936 per capita, up 12% over last year and hitting a historical high since 1997.

The sound macroeconomic background stimulated the rapid growth in demand for colour television sets and CPTs. According to the Chinese National Bureau of Statistics, the PRC output of colour television sets for 2004 increased by 12.4% over 2003 to 73.29 million units, accounting for approximately 45% of the total global output of colour television sets, which demonstrated the position of China as an obvious global centre for manufacturing of colour television sets. According to CCID, the PRC's output of CPTs in 2004 increased by 13% to approximately 64.91 million units as compared with 2003.

The rebounding global economy and international trade has provided a favourable external environment for the PRC export market. With the closure of some foreign production lines of CRT television sets and CPTs or shifting of such production lines to the PRC, the PRC continued to maintain a fast growth in export of CRT television sets and CPTs.

## Management Discussion and Analysis

### 1. Industry review (*continued*)

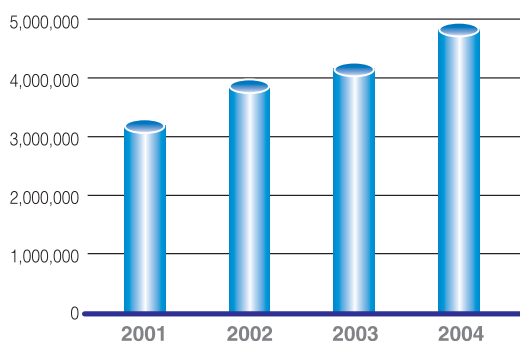
**Export of the PRC colour television sets and CPTs**

	2001	2002	2003	2004
Colour television sets (million units)	11.63	18.82	22.77	27.72
Growth rate	—	61.82%	20.99%	21.74%
CPTs (million units)	9.36	13.47	15.95	18.13
Growth rate	—	43.91%	18.41%	13.67%

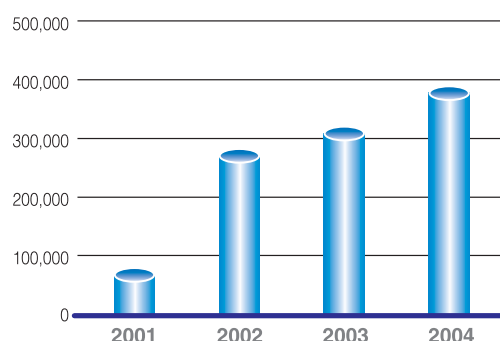
Source: CCID, February 2005

### 2. Business review

Through substantial efforts in 2004, the Group maintained its leading position in the CPT industry in the PRC with satisfactory business results. The Group has strengthened its global market share, and maintained a continuous and steady growth in its operating revenue and profit.



Sales revenue (RMB'000)



Net profit (RMB'000)

#### CPTs business

The Group currently produces CPTs with various sizes ranging from 14" to 29". As at 31 December 2004, the Group owned 8 production lines of CPTs.

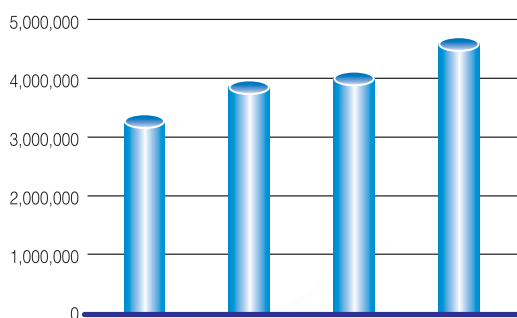
By virtue of technology renovation, the Group improved its production capacity of CPTs production lines and further promoted flexible production capabilities, so as to address the diversifying market needs. A new CPT production line with annual production capacity of 2 million units of 21" CPTs was completed and put into operation, which enhanced large scale production capability of the Group. Meanwhile, faced with the immense commercial opportunities brought by digital television, the Group is constructing a super large-sized (32" - 36" PF 16:9) high definition CPT production line ("K Line") with designed annual production capacity of 1 million units. K Line is expected to commence trial operation in the second half of 2005 and to commence its full scale production in 2006. By then, the Group expects to further optimise the product mix of CPTs.

## 2. Business review (*continued*)

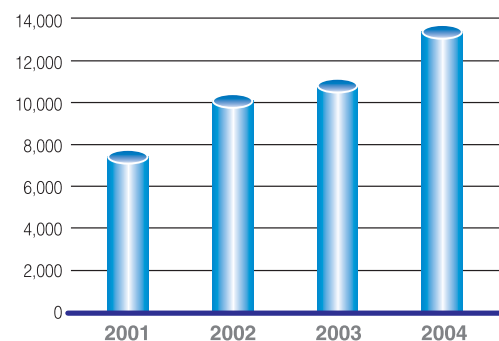
### CPTs business (*continued*)

During 2004, with its ongoing implementation of the cost-control strategy, the Group capitalised on the advantages of its scale and internal supply of CPT components to reduce production cost, resulting in a year-on-year increase of over 2 million units in production volume. In addition, the Group fully utilised the potential in management, leading to a considerable decline in production cost as compared with 2003. The Group adopted different measures including bidding invitation and purchase estimation to control purchasing prices of materials, thus effectively controlling purchasing costs. Furthermore, we proactively forged strategic alliances with suppliers of energy and raw materials to minimise the impact from cyclical shortages of energy and raw materials. In addition, the production capability for internal supply of CPT components was further enhanced. This has expanded the Group's profit sources by increasing external sales, and also enhanced the cost advantages of overall integration by cutting down internal procurement costs.

The Group placed much efforts in CPTs business and optimisation of product mix, thus accomplishing stable growth in CPTs sales volume and sales revenue. The Group's total CPTs sales volume in 2004 amounted to 13.674 million units, representing an increase of 23.1% over last year, while the CPTs sales revenue aggregated to RMB4,466,767,000, representing an increase of 14.9% over last year.



 Sales of CPT (RMB'000)



 Sales volume of CPT ('000 units)

### CPT components business

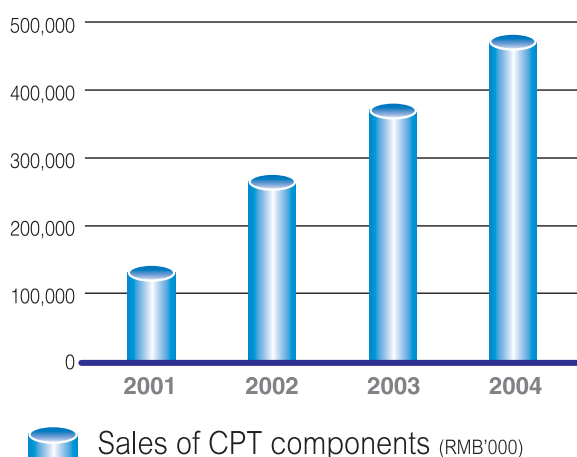
During 2004, the Group continued to enhance its internal supply capability of CPT components. The Group constructed two new glass bulb production lines with annual production capacity of 4 million units and shadow mask production line with annual production capacity of 4 million units, and the construction of production line of components for the K line, which include electron guns, large-sized metal components, deflection yokes, and frame, was also in good and steady progress. In addition, the Group has completed the expansion and reconstruction of the existing production lines and the renovation of panel furnace and funnel furnace as scheduled. Due to the implementation of these projects, the Group has achieved the best historical level in its internal supply capability of CPT components such as panels, funnels and shadow masks, thus further strengthening the cost advantage of the Group.



## 2. Business review (*continued*)

### CPT components business (*continued*)

Based on the satisfaction of internal supply, the Group actively explored the external sale market of CPT components for a better and larger market share, resulting in a desirable achievement of external sale of CPT components. In 2004, the sales revenue of CPT components of the Group amounted to RMB482,916,000, representing an increase of 26.5% as compared with 2003.



### Research and development

In 2004, research and development of the Group has been making smooth progress. In respect of PDPs, the Company had designed and constructed the trial line for PDP display screens which have passed the testing and approval requirements of the PRC Ministry of Information and Industry. The Company has designed and constructed the trial line for 42" PDP display screens, the production of which has been successful. In addition, the circuitry design for PDP televisions have been researched and developed successfully. The Company has the intellectual property rights to its 42" PDP television sets which possess excellent picture quality, thus reaching international standard for similar kind of products and occupying a dominant domestic position. In addition, the development project of phosphors for PDPs had reached the phasic target. In connection with CPTs and components, the projects including the smooth completion in development project of scale production technologies for 29" high definition CPTs, preliminary research of super slim light and high definition CPTs, preliminary research of 28" 16:9 full-flat and high definition CPTs were proceeded under schedule. In addition, the projects regarding the application research of super lage-sized screens with high definition CPTs and CPTs for digital television reached a milestone.

### Employees and training

Facing the keen competition in operation environment, the Group is committed to establishing a team with highly efficient and advanced technology, thus maintaining and improving our leading position in domestic CPT industry. As at 31 December 2004, the Group had 20,844 employees. As compared with the data disclosed in the Company's prospectus dated 8 December 2004, the Group had additional 1,700 employees, which is mainly attributable to establishment and expansion of CPTs and CPT component production lines on-stream. Therefore, additional employees were recruited correspondingly.

## 2. Business review (*continued*)

### Employees and training (*continued*)

	Number of employees	Percentage in total number of employees (%)
Management and administrative employees	577	2.8%
Financing and audit employees	108	0.5%
Sales and business management employees	115	0.6%
Other professional and technical employees	1,025	4.9%
(Including: research and development employees)	184	0.9%
Others	19,019	91.2%
(Including: technical workers	8,716	41.8%
Operators	9,811	47.1%
Service and supporting personnel	417	2.0%
Others)	75	0.3%
Total	20,844	100%

The employees are entitled to the remuneration comparable with local industry in the business operation region.

The Group attaches great importance to employee training and is devoted to establishing an organisation with learning culture so as to improve production efficiency and work satisfaction of the employees. Each year the Group formulates detailed training scheme implemented by the human resources department, which covers technical training, advanced study, management education, technology safety and environment education, corporate culture education and quality management education.

### Major customers

The Group's products are mainly sold to the domestic market, as well as overseas market including Turkey, Indonesia, Hong Kong and Russia. The Group's major customers are the leading CRT television set manufactures such as TCL, Konka, Skyworth, Changhong and Hisense. The Group has established long term and stable relationship with our major customers, including some relationship with Chinese customers extending over ten years long.

### Sales percentage of major customers

	2001	2002	2003	2004
Percentage of the largest customer				
in total sales (%)	17.06%	15.29%	15.05%	18.38%
Percentage of the top five customers				
in total sales (%)	61.98%	64.61%	69.62%	62.16%

## 2. Business review (*continued*)

### Intellectual property

On 22 October 2004, the Company entered into an agreement on the transfer of patents and patent application rights with IRICO Group Corporation and IRICO Color Picture Tube Plant, pursuant to which all patents and patent applications rights required for the Company's production and business operation shall be transferred to the Company.

In addition to the acquisition of the above patents, the Company's 41 applications for patents were in process with the State Intellectual Property Office of the PRC in 2004.

Pursuant to the trademark licensing agreement entered into between the Group and IRICO Group Corporation, the Group is authorised to use 24 registered trademarks owned by IRICO Group Corporation.

### Business development plan

The market demand for global CPT televisions sets is still enormous in the foreseeable future. The PRC has gradually become the global television manufacturing centre, particularly for CPTs. The Board expects that the PRC will be able to maintain a fast growth in the export of colour television sets and CPTs.

The Company is faced with numerous difficulties, including the fast development of FPD devices with increasing market share and the fierce competition within the CPT industry, which will place a burden on the sales and selling prices of the Group's production of CPTs. Meanwhile, the Group suffers pressure from increasing prices of certain raw materials and energy required for its production in 2005, which will have an adverse impact on the CPT production of the Group.

Faced with such opportunities and challenges in market environment, the Group's principal business plan for 2005 is as follows:

1. Facing the pressure from lowering price and declining demand, the Company will further develop all-round activities of management renovation and technological innovation; minimise its costs while utilise potential and participate in the global competition with high cost-performance products to secure the Group's leading position in CPT industry, in the PRC and raise its global market share.
2. The Group will place more efforts in marketing. In addition to expanding market share in the domestic market, the Group will actively explore the overseas market, aiming to increase the overseas sales of CPTs to over 30% of the Group's total sales volume.
3. Through construction of super large-sized high definition CPT production lines, and technology renovation for the existing CPT production lines, the Company expects to further strengthen CPT business and large scale advantage in order to optimise product mix.

## 2. Business review (*continued*)

### Business development plan (*continued*)

4. The Group will further enhance its internal supply capability of CPT components. The Group expects to complete the production lines of glass bulbs and shadow masks, as well as the construction of other production lines for CPT components, further enhancing the cost advantage through vertical integration. In addition, the Group expects to increase its domestic and overseas market shares of CPT components for further income.
5. The Company will proactively research and develop new products. As to the PDPs, the Company will capitalise on the success of its 50" PDP screens, speed up the research on PDP-related circuitry and proactively research on the feasibility of large quantity production. As to CPTs and CPT components, the Company will focus on research and development of super large-sized tint series of CPTs, super slim CPTs and related components and materials.

## 3. Financial review

### Overall performance

In 2004, the Group recorded a sustainable and strong growth in operating results as compared with 2003. Turnover for the year ended 31 December 2004 amounted to RMB4,949,683,000, representing an increase of 15.9% over last year. Net profit reached RMB385,327,000, representing an increase of 22% over last year.

### Profit and loss data for 2001-2004

(RMB'000)	2001	2002	2003	2004
Turnover	3,293,021	3,999,378	4,269,781	4,949,683
Sales of CPTs	3,152,040	3,723,889	3,888,156	4,466,767
Sales of CPT components	140,981	275,489	381,625	482,916
Cost of sales	(2,697,243)	(3,079,581)	(3,256,959)	(3,896,956)
Gross profit	595,778	919,797	1,012,822	1,052,727
Other revenues	58,539	59,998	61,258	56,486
Operating expenses				
Administrative expenses	(190,480)	(219,788)	(227,275)	(219,008)
a) General administrative expenses	(149,990)	(165,942)	(195,665)	(172,028)
b) Research and development expenses	(40,490)	(53,846)	(31,610)	(46,980)
Distribution expenses	(85,030)	(102,130)	(103,405)	(113,323)
Other operating expenses	(123,431)	(69,524)	(73,604)	(79,275)
Operating profit	258,247	591,787	679,766	713,020
Finance costs	(103,737)	(78,853)	(56,588)	(62,966)
Profit for the year	74,311	277,103	315,825	385,327

### 3. Financial review (*continued*)

#### Turnover and gross profit margin

##### Turnover by product (RMB'000)

Name	2003	2004	Increase/ (decrease)	Percentage of change
CPTs	3,888,156	4,466,767	578,611	14.9%
Including: Small-sized CPTs	700,177	782,795	82,618	11.8%
Medium-sized CPTs	2,881,360	3,614,760	733,400	25.5%
Large-sized CPTs	306,619	69,212	(237,407)	-77.4%
CPT components	381,625	482,916	101,291	26.5%
Total	4,269,781	4,949,683	679,902	15.9%

##### Sales volume by product (Units)

Name	2003	2004	Increase/ (decrease)	Percentage of change
Small-sized CPTs	3,917,886	4,555,099	637,213	16.3%
Medium-sized CPTs	6,887,396	9,043,451	2,156,055	31.3%
Large-sized CPTs	304,338	75,484	(228,854)	-75.2%
Total	11,109,620	13,674,034	2,564,414	23.1%

##### Average selling price by product (RMB / Unit)

Name	2003	2004	Increase/ (decrease)	Percentage of change
Small-sized CPTs	179	172	(7)	-3.9%
Medium-sized CPTs	418	400	(18)	-4.3%
Large-sized CPTs	1,007	917	(90)	-8.9%

With strengthened marketing efforts in 2004, the Group recorded satisfactory turnover for its operations as planned. The Group sold approximately 13,674,000 units of CPTs, representing an increase of 23.1% as compared with previous year, and its revenue reached RMB4,466,767,000, representing an increase of 14.9% as compared with last year. Sales revenue of spare parts amounted to RMB482,916,000, representing an increase of 26.5% over last year.

### 3. Financial review (*continued*)

#### Turnover and gross profit margin (*continued*)

The overall gross profit rate of the Group decreased from 23.7% of 2003 to 21.3% of 2004. This was mainly due to: 1) a further decrease in the average selling prices of CPTs in 2004 as compared with 2003 resulting from fierce competition in the PRC market of colour television sets; 2) the surge in prices of certain raw materials; and 3) the production line with annual production capacity of 2 million sets of 21" CPTs was completed ahead of schedule, as compared with the production line of CPT components, resulting in an increase in the external purchase of CPT components and thus, a reduction in the gross profit rate.

#### Administrative expenses

The Group's administrative expenses in 2004 decrease by RMB8,267,000, or 3.64%, to RMB219,008,000 from RMB227,275,000 in 2003, mainly as a result of the allocation of some of the administration to the production as the adjustment of organisation structure and the disposal of property and land led to the decrease in property tax and land tax.

#### Finance costs

The Group's finance costs for 2004 recorded RMB62,966,000, representing an increase of RMB6,378,000, or 11.27%, from RMB56,588,000 in 2003, which is mainly attributable to the increase in bank loan interests accrued on the increased bank loans.

#### Net current assets and financial resources

As at 31 December 2004, the Group's cash and cash equivalents aggregated to RMB1,096,516,000, representing an increase of 46.8% from RMB747,186,000 as at 31 December 2003. The Group paid a total of RMB1,313,432,000 in capital expenditure during the year ended 31 December 2004. Net cash flow generated from operating activities and financing activities was RMB623,370,000 and RMB1,014,038,000 respectively, and net cash flow used in investing activities amounted to RMB1,288,078,000.

As at 31 December 2004, the Group's borrowings totalled RMB1,420,000,000 as compared with RMB1,060,000,000 as at 31 December 2003. The borrowings were all due within one year. Bank loans of approximately RMB300,000,000 (2003: RMB260,000,000) are secured by certain buildings and machinery of the Group amounting to RMB321,973,000 (2003: RMB359,273,000) as at 31 December 2004. Bank loans of approximately RMB200,000,000 were secured by bank deposits of RMB21,000,000 and trade bills receivable of RMB41,319,000 of the Group as at 31 December 2004.

### 3. Financial review (*continued*)

#### Net current assets and financial resources (*continued*)

For the year ended 31 December 2004, turnover period for accounts receivable of the Group was 93 days, representing a decrease of 15 days from 108 days for the year ended 31 December 2003, which was mainly attributable to its strengthened collection of the accounts receivable.

For the year ended 31 December 2004, inventory turnover period for the Group was 86 days, representing an increase of 8 days from 78 days for the year ended 31 December 2003, which was mainly attributable to the increased inventories of finished products caused by the release in market demand at the end of 2004.

#### Taxation

The Group's taxation for 2004 was RMB134,468,000, representing a decrease of 22.7% from RMB173,936,000 in 2003, which was mainly attributable to a deduction of income tax rate from 33% to 15% after the Company's incorporation on 10 September 2004.

#### Profit attributable to shareholders and earnings per share

In 2004, the Group's profit attributable to shareholders amounted to RMB385,327,000, representing an increase of 22% from RMB315,825,000 in 2003.

For the year ended 31 December 2004, the Company's weighted average earnings per share was RMB0.25.

#### Capital structure

As at 31 December 2004, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and US dollars.

The Group intends to maintain a suitable ratio of share capital to liabilities, so as to ensure an effective capital structure from time to time. As at 31 December 2004, its liabilities including bank loans aggregated to RMB2,931,868,000 with cash and cash equivalents totalling RMB1,096,516,000 and a gearing ratio (defined as: total liabilities / total assets) of 41%.

#### Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the year ended 31 December 2004, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.



# Profiles of Directors, Supervisors and Senior Management

## Executive Directors

Ma Jinquan	62	Chairman
Tao Kui	52	Vice-chairman
Xing Daoqin	50	President
Guo Mengquan	48	Executive Director
Zhang Shaowen	43	Executive Director
Yun Dajun	50	Vice president and chief financial controller

## Non-executive Director

Zhang Xingxi	48	Non-executive Director
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## Independent non-executive Directors

Feng Fei	43	Independent non-executive Director
Xu Xinzong	41	Independent non-executive Director
Feng Bing	38	Independent non-executive Director
Wang Jialu	44	Independent non-executive Director
Zha Jianqiu	36	Independent non-executive Director

## Executive Directors

**Mr. Ma Jinquan** (馬金泉) is an executive Director and the chairman of the Company. He is responsible for the overall management of the Company. Mr. Ma had joined in October 1978 the businesses and entities which became part of the Company. Mr. Ma graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor degree in aviation and aerospace industry. In 1992, he was awarded a special government allowance of the People's Republic of China. Mr. Ma is a senior engineer at a professor level. He acted as a director of IRICO Group Corporation since December 1998 and as the vice-chairman of the Board and vice-president of IRICO Group Corporation from November 2000 to February 2001 and has been acting as the general manager of IRICO Group Corporation since March 2001. Before that, he was the executive deputy factory manager of Shaanxi Color Picture Tube Plant (陝西彩色顯像管總廠), the executive deputy general manager of IRICO Electronics Group Corporation (彩虹電子集團公司), the factory manager of Huanghe Machinery Plant (黃河機械廠), the chairman and general manager of Huanghe Mechanical and Electrical Joint Stock Company Limited (黃河機電股份有限公司), and the vice-chairman and vice president of IRICO Group Corporation. In addition, he also served as the chairman of IRICO Display Devices Co., Ltd. Mr. Ma has over 20 years of extensive experience in management and operation.

## Profiles of Directors, Supervisors and Senior Management

### Executive Directors (*continued*)

**Mr. Tao Kui** (陶魁) is an executive Director and the vice-chairman of the Company. He is responsible for the investment and planning management of the Company. Mr. Tao had joined in September 1978 the businesses and entities which became part of the Company. He graduated from South East University (東南大學) (formerly known as Nanjing Institute of Technology) with a bachelor degree in electrical vacuum devices and is qualified as a senior engineer. Mr. Tao acted as a director of IRICO Group Corporation from November 1995 to February 2001 and as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the phosphor powder factory and the glass factory under Shaanxi Colour Picture Tube Plant, a director of IRICO Group Corporation and the deputy factory manager of CPT Plant. Mr. Tao has over 20 years extensive corporate operation and management experience in the Chinese CPT industry.

**Mr. Xing Daoqin** (邢道欽) is an executive Director and the president of the Company. He is responsible for the daily production and operation of the Company. Mr. Xing had joined in February 1982 the businesses and entities which became part of the Company. He graduated from Xian Jiaotong University (西安交通大學) with a bachelor degree in automation. In 1996, Mr. Xing was awarded a special government allowance for experts by the State Council of the People's Republic of China. He is a senior engineer at a professor level. Mr. Xing has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of Caihong Glass Factory under CPT Plant, the head of the Electronic Glass Department of IRICO Group Corporation and the deputy factory manager of CPT Plant. Mr. Xing has been engaged in the Chinese CPT industry for more than 20 years and has profound knowledge on the technologies for production of CPT equipment and components, and extensive experience in corporate operation and management.

**Mr. Guo Mengquan** (郭盟權) is an executive Director. He is responsible for marketing and sales of the Company. Mr. Guo had joined in September 1983 the businesses and entities which became part of the Company. He graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor degree in control and manipulation of aviation fluid mechanics and from Shaanxi MBA College with an MBA degree. He is a senior engineer at a professor level. Mr. Guo has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of the glass plant under CPT Plant. Mr. Guo has over 20 years of experience in the manufacture of CPT components and corporate operation and management.

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**Mr. Zhang Shaowen** (張少文) is an executive Director. He is responsible for technology management of the Company. Mr. Zhang had joined in August 1981 the businesses and entities which became part of the Company. He graduated from the Party School of Shaanxi Provincial Committee (陝西省委黨校) with a bachelor degree in economic management. He is a senior engineer. Mr. Zhang has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the shadow masks factory and the No. 1 CPT Plant under CPT Plant. Mr. Zhang has been engaged in the Chinese CPT industry for over 20 years and has extensive experience in corporate operation and management.

**Mr. Yun Dajun** (雲大俊) is an executive Director, the vice-president and chief financial controller of the Company. He is responsible for the financial management of the Company. Mr. Yun joined the Company in September 2004. He graduated from National Taiwan University (國立台灣大學) with a bachelor degree in business management. Prior to joining the Company, Mr. Yun acted as the director of finance (Greater China) in BEA Systems HK Ltd., the director of finance and administration and deputy managing director of Compaq in the PRC region and the finance director of Amdocs Development Limited Beijing Representative Office. He also worked for various companies including IBM Company. Mr. Yun was chosen as the "Outstanding Financial Officer" (「傑出財務主持人」) by Financial Executives Institute of the Republic of China (中華財務主持人協會) in 1993.

## Non-executive Directors

**Mr. Zhang Xingxi** (仇興喜) is a non-executive Director and currently the chief economist of IRICO Group Corporation. Mr. Zhang had joined in August 1981 the businesses and entities which became part of the Company. He graduated from the Faculty of Economics at Beijing Normal University (北京師範大學) with the postgraduate study in business administration. He was the general manager of Caihong Hotel (彩虹賓館) in Xianyang City, Shaanxi Province, the general manager of Hainan Caihong Industrial and Trading Corporation (海南彩虹工貿總公司), the manager of both the Audit Department and Human Resources Department of IRICO Group Corporation.

## Independent non-executive Directors

**Mr. Feng Fei** (馮飛) is an independent non-executive Director and currently the director and a researcher of the Industrial and Economic Research Unit of the Development and Research Center under the State Council (國務院發展研究中心產業經濟研究部). Mr. Feng joined the Company in September 2004. He graduated from Tianjin University (天津大學) with a doctoral degree in engineering. He conducted a postdoctoral research on mechanical and electrical engineering at Qinghua University (清華大學). Mr. Feng was awarded a special allowance by the State Council. He also served as the consultant to the relevant government authorities of Guangdong Province as well as the adviser of Hainan Airlines (海南航空集團) and State Power Corporation (國家電力公司).

**Mr. Xu Xinzong** (徐信忠) is an independent non-executive Director and currently a professor in Finance in Guanghua Management College of Beijing University (北京大學) and the dean of its faculty of finance. Mr. Xu joined the Company in September 2004. Mr. Xu obtained his bachelor degree in meteorology from Beijing University, his MBA degree from Aston University in the United Kingdom and his doctoral degree in finance from Lancaster University in the United Kingdom. He worked as a lecturer and senior lecturer of the Faculty of Accounting and Finance at Manchester University in the United Kingdom and was a professor and a chair in finance of the Faculty of Management at Lancaster University in the United Kingdom. Mr. Xu has been acting as a professor of Guanghua Management College of Beijing University and the dean of its Faculty of Finance since January 2002. Mr. Xu was also awarded the Prize for the Best Manuscript (最佳論文獎) by British Accounting Review in 1997.

**Mr. Feng Bing** (馮兵) is an independent non-executive Director and currently an executive director and the deputy general manager of China Financial and Consulting Company (中華財務諮詢公司). Mr. Feng joined the Company in September 2004. He obtained his bachelor degree in computer software from Northwestern Polytechnical University, his master degree in engineering from Calculation Technology Research Institute of Chinese Academy of Sciences (中國科學院計算技術研究所) and his master's of science degree in finance from the School of Management at Syracuse University. He was a part-time tutor in optional practical training of the Faculty of Commerce at Syracuse University and a senior manager of Deloitte Touche Tohmatsu in the United States.

## Independent non-executive Directors *(continued)*

**Mr. Wang Jialu** (王家路) is an independent non-executive Director and a partner of Zhong Lun Law Firm (中倫金通律師事務所). Mr. Wang joined the Company in September 2004. He completed his course for master degree in business administration from Guanghua Management College of Beijing University and the course for juris doctor from Marburg University of Germany, and received his LLM degree from the law school of Marburg University of Germany. He was an arbitrator in the Beijing Arbitration Commission (北京仲裁委員會), a part-time lecturer for master degree course in the Law Faculty of Beijing University, an executive of the Foreign Affairs Committee of the Beijing Law Society (北京律師協會外事委員會) and a member of the Standing Committee of Venture Capital Professional of the Chinese Technology Finance Development Association (中國科技金融促進會風險投資專業委員會).

**Mr. Zha Jianqiu** (查劍秋) is an independent non-executive Director. He is currently the chairman of Sinohope Certified Public Accountants (北京首華立信會計師事務所), a chief accountant, a senior accountant and is qualified as a CPA and a CPV registered in China. Mr. Zha joined the Company in September 2004. He graduated from Guanghua Management College of Beijing University with a MBA degree in business administration. Mr. Zha worked at the Personnel and Education Division of the National Audit Office of the People's Republic of China (國家審計署), and was the departmental deputy manager and the deputy director (deputy chief accountant) of China Huajian Audit Firm (中國華建審計事務所). From 2001 and 2003, he was the deputy director of Tianzhi Zixin Accounting Firm (天職致信會計師事務所) and the head of its management and consulting department.

## Other senior management

**Mr. Wang Ximin** (王西民) was appointed as an assistant to the president of the Company with effect from 10 September 2004. He is responsible for the production and operation management of the Company. Mr. Wang had joined in September 1978 the businesses and entities which became part of the Company. Mr. Wang received his bachelor degree in electrical vacuum devices from Xian Jiaotong University and his master degree in business administration (MBA) from the Shaanxi MBA College (陝西工商管理碩士學院) in 2001. He is a senior engineer. Prior to joining the Company, Mr. Wang has been acting as the head of the Production Department of IRICO Group Corporation since April 2001. Before that, he was appointed as the No. 1 deputy director of the Technology Department of Shaanxi Color Picture Tube Plant, the manager of Caihong Sales Company under CPT Plant and the deputy head of the Technology Center of CPT Plant.

**Mr. Zhang Chunning** (張春寧) is a joint Company secretary with effect from 10 September 2004. He is responsible for the board affairs, securities management, legal and investors' relationship of the Company. Mr. Zhang graduated from the Faculty of Chemistry at Northwestern University in 1985 with a bachelor degree in science (chemistry) and from Xian Jiaotong University with a master degree in management (business administration). He is now pursuing his doctorate education in management (business administration) at Xian Jiaotong University, with studies on relevant financial, business strategy and marketing issues. He has in particular 16 years of business and management experience in the colour picture tube industry. He had joined the businesses and entities which became part of the Company since 1985, and understands the business and daily operations of the Company. Before that, he was the deputy officer and officer of the No. 2 factory of CPT Plant, the acting factory manager and factory manager of Caihong Phosphor Factory under CPT Plant, the general manager of Shaanxi Rainbow Phosphor Material Co. Ltd. (陝西彩虹熒光材料有限公司).

## Other senior management (*continued*)

**Mr. Ng Yuk Keung** (吳育強) was appointed as a joint Company secretary and the Company's qualified accountant with effect from 26 November 2004. Mr. Ng graduated from The University of Hong Kong with a bachelor degree in management studies and economics and a master degree in global business management and E-commerce. Mr. Ng is a professional accountant and a member of the Hong Kong Institute of Certified Public Accountants. He worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. Mr. Ng was the chief financial officer of the International School of Beijing-Shunyi (北京順義國際學校) from 2001 to 2003, and has been retained by Australian Business Lawyers as a special consultant on accounting matters since 2004. Mr. Ng had been involved in many initial public offerings of PRC enterprises when working with PricewaterhouseCoopers, and had organized seminars on fund raising exercises in the PRC.

## Supervisors

Niu Xinan (牛新安)	44	Chairman of the Supervisory Committee
Fu Jiuquan (符九全)	36	Shareholder Supervisor
Zhang Weichuan (張渭川)	51	Employee Supervisor
Sun Haiying (孫海鷹)	62	Independent Supervisor
Wu Xiaoguang (吳曉光)	48	Independent Supervisor

**Mr. Niu Xinan** (牛新安) was appointed as the chairman of the Supervisory Committee with effect from 10 September 2004. Mr. Niu had joined in August 1981 the businesses and entities which became part of the Company. He received his bachelor degree in the administrative management from Northwestern University and is a senior engineer. Mr. Niu has been acting as the party's vice-secretary and secretary to the disciplinary committee of IRICO Group Corporation. In June 2002, he was elected as the chairman of the labor union of IRICO Group Corporation. Before that, Mr. Niu was the factory manager of No. 1 CPT factory under Shaanxi Colour Picture Tube Plant and the deputy director of its design institute, the manager of Display Devices Department and the factory manager of No. 1 CPT factory under Shaanxi Colour Picture Tube Plant, the factory manager of the Inner Mongolia Television Factory (內蒙古電視機廠) and the deputy factory manager of CPT Plant. Mr. Niu has extensive corporate operation and management experience in the Chinese CPT industry.

**Mr. Fu Jiuquan** (符九全) was appointed as a shareholders Supervisor with effect from 10 September 2004 and currently the deputy chief accountant of IRICO Group Corporation. Mr. Fu had joined in July 1990 the businesses and entities which became part of the Company. Mr. Fu graduated from Guilin Electronic Industry College (桂林電子工業學院) with a bachelor degree in finance and accounting. He is a senior accountant. He was appointed as the director of the Finance Division of CPT Plant and the manager of the Assets Finance Department of IRICO Group Corporation.

**Mr. Zhang Weichuan** (張渭川) was appointed as an employee Supervisor with effect from 10 September 2004. Mr. Zhang had joined in August 1978 the businesses and entities which became part of the Company. He is currently the head of the Technology and Quality Department of the Company. Mr. Zhang graduated from Northwestern Telecommunication Engineering College (西北電訊工程學院) with a bachelor degree in electrical vacuum devices. He is a senior engineer at a researcher level. He was the director of the Quality Assurance Department of CPT Plant, the deputy chief engineer of CPT Plant and the manager of the Technology and Quality Department of the IRICO Group Corporation.



## Profiles of Directors, Supervisors and Senior Management

### Supervisors (*continued*)

**Mr. Sun Haiying** (孫海鷹) was appointed as an independent Supervisor with effect from 10 September 2004 and currently the head and a professor of the Environmental Science and Engineering Technical Centre of Xian Jiaotong University, a member of the Standing Committee of the Chinese People's Political Consultative Conference and the head of the Department of Science and Technology of Shaanxi Province, an adjunct professor of the Institute for Enterprises of the Hong Kong Polytechnic University. Mr. Sun graduated from the Northwestern University in geography and was director of the Shaanxi Province Meteorological Bureau (陝西省氣象局), the director of Shaanxi Province Science and Technology Department (陝西省科學技術廳). He was a group leader of the Planning Strategy Study Group under the State Mid- and Long-term Science and Technology Development Planning Team (國家中長期科學和技術發展規劃領導小組的規劃戰略研究專題組) in August 2004.

**Ms. Wu Xiaoguang** (吳曉光) was appointed as an independent Supervisor with effect from 10 September 2004. She is currently a deputy professor of the Management Faculty at Xian Jiaotong University. She received her bachelor degree in economics from the Economic Management College of Northwestern University. Ms. Wu was retained as a professor of the Chinese (Hainan) Reform and Development Research Institute (中國海南改革發展研究院), the chairman and general manager of Xian Wanguantong Financial Management Consulting Co., Ltd. (西安萬貫通財務管理諮詢有限責任公司), an expert consultant of Shaanxi Province Venture Capital Association (陝西省創業投資協會). Ms. Wu is the chief editor of a MBA teaching material "Theory and Practice of Taxation" (《稅收理論與實務》) and was awarded an outstanding prize of teaching in Shaanxi Province (陝西省教學成果特等獎).

### Joint Company Secretaries

**Mr. Zhang Chuning** (張春寧) was appointed a joint Company secretary with effect from 10 September 2004, and his biographical details are set out above.

**Mr. Ng Yuk Keung** (吳育強) was appointed as a joint Company secretary with effect from 26 November 2004, and his biographical details are set out above.

## 26 Qualified accountant

**Mr. Ng Yuk Keung** (吳育強) was appointed as the Company's qualified accountant with effect from 26 November 2004, and his biographical details are set out above.



# Report of the Directors

The Board hereby presents the report of the Directors and the audited accounts of the Group for the year ended 31 December 2004 to the shareholders.

## Principle operations

The Group is principally engaged in the production and sales of CPTs and CPT components.

## Results and financial status

The annual results of the Group for the year ended 31 December 2004 and its financial status as at the same day prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") are set out on page 40 to page 82 of this annual report.

## Dividends

Subsequent to the reorganisation of the Group, in accordance with the relevant PRC laws and regulations, and the Articles of Association of the Company, the retained profit available for distribution by the Company is deemed to be the lower of the amount determined in accordance with the Accounting Standards and Accounting System for Business Enterprises in the PRC ("PRC GAAP") and the amount determined in accordance with HK GAAP. In accordance with the Company's accounting policies, dividend income is recognized upon determination of rights to claim payments. As a result, as at 31 December 2004, the 2004 final dividend to be paid by the subsidiaries are not reflected in the Company's accounts in accordance with HK GAAP, and there is no retained profit available for distribution after deduction of the special dividend under the reorganisation. Details are set out in note 9 and 31 to the accounts of the annual report and the Company's prospectus dated 8 December 2004.





**Report of the Directors****Financial highlights**

The consolidated results and summary of assets and liabilities of the Group for the past four years are set out on page 5 of the annual report.

**Major suppliers and customers**

During the year, the Group's purchase of goods and services from its largest supplier represented approximately 7% while its purchase from the five largest suppliers represented approximately 25%. The Group's sales of goods and services to its largest customer represented approximately 18%, while its sales to the five largest customers accounted for approximately 62%.

The Group has purchased certain goods and / or services from certain companies, and these suppliers were connected persons of the Company. Details are set out in note 34 to the accounts.

**Fixed assets**

Details of fixed assets of the Group in the year are set out in note 14 to the accounts.

**Reserves**

Details of the reserves of the Group and of the Company during the year are set out in note 31 to the accounts.

**Purchase, sale and redemption of shares**

The Company had not redeemed any of its shares during the year. Neither had the Company nor any of its subsidiaries purchased or sold any of its issued shares during the year.

**Directors and Supervisors**

**28** The particulars of Directors and Supervisors during the year and up to the date of this report are as follows:

**Executive Directors**

Ma Jinquan	Chairman
Tao Kui	Vice chairman
Xing Daoqin	President
Guo Mengquan	Executive Director
Zhang Shaowen	Executive Director
Yun Dajun	Vice president and chief financial controller

## Directors and Supervisors (*continued*)

### Non-executive Directors

Zhang Xingxi Non-executive Director

### Independent non-executive Directors

Feng Fei	Independent non-executive Director
Xu Xinzong	Independent non-executive Director
Feng Bing	Independent non-executive Director
Wang Jialu	Independent non-executive Director
Zha Jianqiu	Independent non-executive Director

### Supervisors

Niu Xinan	Chairman of the Supervisory Committee
Fu Jiuquan	Shareholder Supervisor
Zhang Weichuan	Employee Supervisor
Sun Haiying	Independent Supervisor
Wu Xiaoguang	Independent Supervisor

The profiles of Directors, Supervisors and senior management are set out on page 21 to page 26 of this annual report.

## Re-election of Directors and Supervisors

The existing Directors and Supervisors of the Company were elected at the Annual General Meeting held on 9 September 2004. The terms of appointment were three years and till 2007. All the existing Directors and Supervisors will continue to serve their office.

## Remuneration of Directors and the five highest paid individuals

Details of the remuneration of directors and the five highest paid individuals of the Group are set out in note 11 to the accounts.

## Management contracts

Save for the connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**Report of the Directors****Interests and short positions of Directors and Supervisors**

As at 31 December 2004, none of the Directors, Supervisors, chief executives or members of senior management of the Company and their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and / or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), or which was otherwise required to be entered in the register of interests to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in force as at 31 December 2004.

During the year of 2004 and as at 31 December 2004, none of the Directors, Supervisors, chief executives or members of senior management of the Company or any of their respective spouses or children under 18 years of age were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

**Directors' and Supervisors' interests in contracts**

Save for the services contracts entered into by the Directors and Supervisors in relation to their services to the Company, no contract of significance or proposed contracts of significance, to which the Company or any of its subsidiaries, holding companies or jointly controlled entities was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

**Service contracts of the Directors and Supervisors****30**

No Director or Supervisor has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

**Share capital**

Details of the share capital of the Company are set out in note 30 to the accounts.

## Interests and short positions of substantial shareholders and other persons

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, chief executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2004 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group Corporation had interests in 1,455,880,000 Domestic Shares of the Company (representing 100% of the Domestic Share capital), whereas HKSCC Nominees Limited had interests in 483,674,000 H Shares of the Company (representing 99.67% of the H Share capital).

### Notes:

J. P. Morgan Chase & Co. through its controlled corporations had interests in 42,364,000 H Shares of the Company (representing approximately 8.73% of the H Share capital), which included a lending pool of 8,622,000 H Shares.

Pictet Asset Management on behalf of Pictet Funds Asian Equities had direct interests in 43,000,000 H Shares of the Company (representing approximately 8.86% of the H Share capital).

Derby Steven P., Goldfarb Lawrence and Lamar Steven M. through their controlled corporations had interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the H Share capital).

Morgan Stanley through its controlled corporations had interests in 154,268,000 H Shares of the Company (representing approximately 31.79% of the H Share capital) and a short position in 73,000,000 H Shares of the Company (representing approximately 15.04% of the H Share capital). Of the aforesaid interests and short position, the holding of 145,068,000 H Shares and a short position of 73,000,000 H Shares was duplicated as a result of the following holding.

China International Capital Corporation (Hong Kong) Limited ("CICCHK") and China International Capital Corporation Hong Kong Securities Limited ("CICC Securities") had direct interests in 145,068,000 H Shares of the Company (representing approximately 29.89% of the H Share capital). In addition, CICCHK was also holding a short position in 73,000,000 H Shares of the Company (representing approximately 15.04% of the H Share capital). The aforesaid interests and short position in the Company's H Shares were principally as a result of the stabilising actions undertaken by CICCHK during the period from 20 December 2004 to 12 January 2005 as detailed in the prospectus of the Company dated 8 December 2004 and the announcement of the Company dated 17 January 2005. Central Huijin Investment Company Limited, Morgan Stanley and their controlled corporations were taken to be interested in the said interests and short position by virtue of their respective shareholding interests in CICCHK and CICC Securities.

**Report of the Directors****Use of proceeds raised by issue of H Shares**

The Company has issued H Shares in December 2004, which were listed on the the Stock Exchange on 20 December 2004. The net proceeds raised (after deduction of fees and payable to the PRC National Social Security Fund) amounted to approximately HK\$642,000,000.

The net proceeds raised are being used in accordance with the section headed "Use of Net Proceeds" set out in the Company's prospectus dated 8 December 2004. For the year ended 31 December 2004, the actual use of proceeds raised by the Company are set out as follows:

<b>Use of proceeds</b>	<b>Planned</b> <i>(HK\$ million)</i>	<b>Actual</b> <i>(HK\$ million)</i>
Part of the total investment in the large screen CPT production company (K-Line)	157	142
Repayment to IRICO Group Corporation to offset the same amount previously drawn on the current account of IRICO Group Corporation as part of the total investment in K Line mentioned above	157	97
Part of the total capital expenditure in the production line of CPT components	162	0
Research and development of CPTs, CPT components and new display devices	94	30
Working capital for new projects	75	66
General operating capital	remaining capital	0

**32****Designated deposit and overdue time deposit**

As of 31 December 2004, the Group had no designated deposits in any financial institutions in the PRC. All of the Group's bank deposits are lodged in commercial banks in the PRC, and the Group is in compliance with the relevant laws and regulations.

## Continuing connected transactions

For the year ended 31 December 2004, there were various continuing connected transactions between the Group and IRICO Group Corporation, Xian Guangxin Electronic Co., Ltd. ("Xian Guangxin"), IRICO Display Technology Co., Ltd. ("IRICO Display"), Xianyang IRICO Electronics Parts Co., Ltd. ("IRICO Shadow Mask"), Shaanxi Rainbow Phosphor Material Co., Ltd. ("IRICO Phosphor"), Xianyang Cailian Packaging Material Company Limited ("Xianyang Cailian"), details of which are set out in the Company's prospectus dated 8 December 2004.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Stock Exchange has granted to the Company a waiver from strict compliance with the otherwise applicable announcement and / or independent shareholders' approval requirements in connection with these continuing connected transactions (the "Waiver").

For the year ended 31 December 2004, the approved annual cap and the actual revenue or expenditure in respect of each continuing connected transactions are set out below:

	<b>Approved annual cap for 2004</b> <i>RMB'000</i>	<b>Actual revenue or expenditure for 2004</b> <i>RMB'000</i>
Supply of fuel, coal, industrial chemicals products and raw materials to IRICO Group Corporation	66,277	66,081
Supply of industrial chemicals products, parts and raw materials to IRICO Display, IRICO Phosphor and IRICO Shadow Mask	204,391	183,551
Purchase of foam plastics, gloves, wood brackets, convergence magnets and raw materials from IRICO Group Corporation	172,193	168,024
Purchase of phosphor and shadow mask from IRICO Phosphor and IRICO Shadow Mask	104,458	80,579
Purchase of packaging materials, adhesive tapes and plastic materials from Xianyang Cailian	43,733	43,389
Utilities obtained from IRICO Group Corporation	426,750	420,761
Social and ancillary services obtained from IRICO Group Corporation		
(a) Schools	10,106	10,036
(b) Social welfare facilities	2,814	2,814
(c) Security services	800	214
(d) Environmental hygienic and landscaping services	1,200	1,000
Rental payable to IRICO Group Corporation	30,827	30,827
Land use rights leasing fees payable to IRICO Group Corporation	4,218	4,218
Equipment leasing fees payable to Xian Guangxin	1,500	1,500
Trademark licensing fees payable to IRICO Group Corporation	5,215	4,950

**Report of the Directors****Continuing connected transactions (*continued*)**

The independent non-executive Directors had reviewed these continuing connected transactions and confirmed to the Board that these transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had provided a letter to the Directors of the Company confirming that the continuing connected transactions:

- (1) had received the approval by the Board of the Company;
- (2) were in accordance with the pricing policies disclosed in the Company's prospectus dated 8 December 2004;
- (3) had been entered into in accordance with the relevant agreements governing these transactions; and
- (4) had not exceeded the caps set out in the Waiver.

In respect of these continuing connected transactions, the Company confirmed that it had complied with the relevant requirements set out in the Waiver and Chapter 14A of the Listing Rules.

**Bank loans**

**34** As at 31 December 2004, details of bank loans of the Group are set out in note 27 to the accounts.

**Pre-emptive right**

There are no provisions for pre-emptive rights under the Company's articles of association or relevant laws and regulations which could oblige the Company to offer new shares on a pro-rata basis to existing shareholders.



## Subsidiaries

Details of the subsidiaries of the Company are set out in note 36 to the accounts.

## External guarantee

During the year, the Group did not have any provision of external guarantees.

## Material litigation

The Group was not involved in any litigation or arbitration of material importance during the year.

## Code of best practice

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice ("Code of Best Practice"), as set out in Appendix 14 to the Listing Rules, throughout the year.

## Model code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

## Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

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## Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution reappointing PricewaterhouseCoopers as the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board  
**Ma Jinquan**  
Chairman

Xianyang, the PRC  
24 March 2005

## Report of the Supervisory Committee

### Dear shareholders,

The Supervisory Committee was established on 9 September 2004. During the year, all members of the supervisory committee have honestly, duly and diligently performed their duties in compliance with the Company Law of the People's Republic of China, the Listing Rules and the Articles of Association of the Company.

The Supervisory Committee participated in the Board meetings and the significant events, reviewed the financial, daily management and operating activities of the Company and provided their opinions. The Supervisory Committee is satisfied with the operating performance of the Company in 2004 and has found no detriment to the interests of the shareholders and the Company or breach of the Articles of Association and relevant laws.

The Supervisory Committee has reviewed the report of the Directors, audited accounts and profit distribution plan and other matters to be proposed at the 2004 annual general meeting and is of opinion that there is no irregularities.

The Supervisory Committee has watched over members of the Board, the chief executive and senior management in performing their duties, and is of opinion that members of the Board, the chief executive and other senior management members have been performing their duties in a diligent and honest manner and in the interests of the shareholders and the Company. The operation of the Company is sound.

The Supervisory Committee is confident in the prospect of the Company and will proceed to carry out effective supervision on the operation of the Company to safeguard the interests of the shareholders as a whole and the Company.

By order of the Supervisory Committee  
**Niu Xin'an**  
*Chairman of the Supervisory Committee*

Xianyang, the PRC  
24 March 2005

# Report of Corporate Governance

## Corporate governance practices

For the year ended 31 December 2004, in the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules and proactively reviewed its internal control in accordance with the principles and provisions set out in the Code on Corporate Governance Practices of the Listing Rules. The Company will comply with such principles and provisions.

## Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company. The Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

## The Board

### Composition and appointment

The first Board was elected at the inauguration meeting and the first general meeting on 9 September 2004. The Board comprises 12 Directors, including 5 independent non-executive Directors, 6 executive Directors and 1 non-executive Director. Names and biographies of the Directors are set out on page 21 to 26 of this annual report. The term of office for all the Directors (including non-executive Directors and independent non-executive Directors) is 3 years and they are eligible for re-election upon expiry.

The Directors confirmed that there was no connection amongst the Directors, that should be disclosed relating to finance, business, relation or other significant events or relevant matters. The Board confirmed that the independence and eligibility of the independent non-executive Directors are in compliance with the relevant requirements of the Listing Rules.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. In 2004, the Board convened a total of four meetings, performing its duties in considering the appointment of the general manager, listing of H Shares, financial and other matters under the provisions of the Articles of Association of the Company. Real-time teleconference system was adopted at each meeting to increase the attendance rate. The average attendance rate was 97%.

**Report of Corporate Governance****The Board (*continued*)****Composition and appointment (*continued*)**

Statistics of Directors' attendance at the Board meetings:

Name of director	Attendance		Title
	Times	Rate	
Ma Jinquan	4/4	100%	Executive Director, Chairman
Tao Kui	4/4	100%	Executive Director, Vice Chairman
Xing Daoqin	4/4	100%	Executive Director, Chief executive
Guo Mengquan	4/4	100%	Executive Director
Zhang Shaowen	4/4	100%	Executive Director
Yun Dajun	4/4	100%	Executive Director
Zhang Xingxi	4/4	100%	Non-executive Director
Feng Fei	4/4	100%	Independent non-executive Director
Xu Xinzong	4/4	100%	Independent non-executive Director
Feng Bing	3/4	75%	Independent non-executive Director
Wang Jialu	4/4	100%	Independent non-executive Director
Zha Jianqiu	4/4	100%	Independent non-executive Director

**Chairman and chief executive**

Two executive Directors, Mr. Ma Jinquan and Mr. Xing Daoqin, serve as the Chairman and the Chief Executive of the Company respectively. The Chairman is responsible for convening the Board meetings and promoting the corporate governance of the Company, whereas the chief executive participates in the significant decision-making and the day-to-day management of the Company.

**Audit committee****38**

The audit committee comprises four independent non-executive Directors and one non-executive Director. Mr. Zha Jianqiu, an independent non-executive Director, serves as the chairman of the audit committee. Under the requirements set out by the Board, the audit committee adopts and complies with "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Responsibilities of the audit committee include:

- (1) to be in charge of the appointment of external auditors, auditing expenses and any matters regarding the resignation or dismissal of the external auditors;
- (2) to discuss with the external auditors on the nature and scope of audit prior to the commencement of the auditing procedures; and
- (3) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the Company for the year ended 31 December 2004.

## Report of the Auditors



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central, Hong Kong

### TO THE SHAREHOLDERS OF IRICO GROUP ELECTRONICS COMPANY LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the accounts on page 40 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 24th March 2005

## Consolidated Profit and Loss Account

For the year ended 31st December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Turnover	3	<b>4,949,683</b>	4,269,781
Cost of sales		<b>(3,896,956)</b>	(3,256,959)
Gross profit		<b>1,052,727</b>	1,012,822
Other revenues	3	<b>56,486</b>	61,258
Other income		<b>15,413</b>	9,970
Distribution expenses		<b>(113,323)</b>	(103,405)
Administrative expenses		<b>(219,008)</b>	(227,275)
Other operating expenses	4	<b>(79,275)</b>	(73,604)
Operating profit	5	<b>713,020</b>	679,766
Finance costs	6	<b>(62,966)</b>	(56,588)
Share of results of associated companies		<b>196</b>	(62)
Profit before taxation		<b>650,250</b>	623,116
Taxation	7	<b>(134,468)</b>	(173,936)
Profit after taxation		<b>515,782</b>	449,180
Minority interests		<b>(130,455)</b>	(133,355)
Profit attributable to shareholders	8	<b>385,327</b>	315,825
Dividend / profit distribution	9	<b>204,923</b>	146,084
Earnings per share	10	<b>Rmb 0.25</b>	Rmb 0.21



**Consolidated Balance Sheet**

As at 31st December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Non-current assets			
Intangible assets	13	67,074	112,605
Fixed assets	14	3,455,686	2,407,636
Associated companies	16	18,218	18,022
Long-term investments	17	24,060	30,000
Deferred taxation	29	9,947	8,172
		<b>3,574,985</b>	2,576,435
Current assets			
Inventories	18	930,556	705,318
Accounts receivable	19	654,546	258,101
Trade bills receivable	20	628,015	1,023,684
Other receivables, deposits and prepayments		181,526	110,854
Other investments	22	4,640	4,024
Due from related parties	23	11,400	50,074
Cash and bank balances	25		
— pledged		21,000	—
— unpledged		1,096,516	747,186
		<b>3,528,199</b>	2,899,241
Current liabilities			
Accounts payable	26	561,607	431,779
Other payables and accruals		444,939	566,988
Trade bills payable		96,171	129,287
Due to related parties	23	372,303	62,386
Due to minority shareholders	24	4,436	10,046
Short-term bank loans	27	1,420,000	630,000
Current portion of long-term bank loans		—	430,000
Taxation payable		21,118	13,503
		<b>2,920,574</b>	2,273,989
Net current assets		<b>607,625</b>	625,252
Total assets less current liabilities		<b>4,182,610</b>	3,201,687
Financed by:			
Share capital	30	1,941,174	1,500,000
Reserves	31	1,101,276	679,758
Shareholders' equity		<b>3,042,450</b>	2,179,758
Minority interests		<b>1,128,866</b>	1,007,160
Non-current liabilities			
Deferred income	28	11,294	14,769
		<b>4,182,610</b>	3,201,687

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**Ma Jinquan**  
Chairman

**Yun Dajun**  
Director

# Balance Sheet

As at 31st December 2004

	Note	2004 Rmb'000
Non-current assets		
Intangible assets	13	21,534
Fixed assets	14	1,486,838
Investments in subsidiaries	15	1,812,275
		3,320,647
Current assets		
Inventories	18	487,847
Accounts receivable	19	238,367
Trade bills receivable	20	130,862
Other receivables, deposits and prepayments		146,082
Loan to a subsidiary	21	30,000
Due from related parties	23	3,421
Cash and bank balances	25	
— pledged		21,000
— unpledged		460,465
		1,518,044
Current liabilities		
Accounts payable	26	342,352
Other payables and accruals		290,451
Trade bills payable		48,662
Due to related parties	23	268,292
Due to minority shareholders of subsidiaries	24	1,455
Short-term bank loans	27	990,000
Taxation payable		4,993
		1,946,205
Net current liabilities		(428,161)
Total assets less current liabilities		2,892,486
Financed by:		
Share capital	30	1,941,174
Reserves	31	947,616
Shareholders' equity		2,888,790
Non-current liabilities		
Deferred income	28	1,389
Deferred taxation	29	2,307
		3,696
		2,892,486

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Ma Jinquan  
Chairman

Yun Dajun  
Director

# Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note	2004 Rmb'000	2003 Rmb'000
Operating activities			
Cash generated from operations	33(a)	814,964	579,246
Interest paid		(62,966)	(56,588)
Net PRC enterprise income tax paid		(128,628)	(135,999)
Net cash from operating activities		623,370	386,659
Investing activities			
Purchase of fixed assets and intangible assets		(1,313,432)	(431,843)
Proceeds from disposal of fixed assets		11,494	1,044
Proceeds from disposal of other investments		105,808	190,807
Increase in investments in an associated company		—	(3,000)
Proceeds from disposal of long-term investments		—	690
Increase in other investments		(117,201)	(187,124)
Acquisition of a subsidiary, net of cash acquired	33(b)	19,333	—
Decrease in due from related parties and minority shareholders — non-trade		—	677,462
Dividend received		396	—
Interest received		5,524	20,721
Net cash (used in) / from investing activities		(1,288,078)	268,757
Financing activities	33(c)		
Draw-down of short-term bank loans		1,620,000	630,000
Repayment of short-term bank loans		(830,000)	(780,000)
Draw-down of long-term bank loans		—	180,000
Repayment of long-term bank loans		(430,000)	(130,000)
Dividends paid to ultimate holding company		(146,084)	(87,614)
Dividends paid to minority shareholders		(35,172)	(49,107)
Contribution from minority shareholders		18,768	10,348
Increase / (decrease) in due to related parties and minority shareholders— non-trade		133,560	(231,368)
Increase in pledged bank balance		(21,000)	—
Cash distributed to ultimate holding company		—	(200,000)
Proceeds from issuance of shares by the Company		741,039	—
Share issuance costs paid		(37,073)	—
Net cash from / (used in) financing activities		1,014,038	(657,741)
Increase / (decrease) in cash and bank balances		349,330	(2,325)
Unpledged cash and bank balances at beginning of the year		747,186	749,511
Unpledged cash and bank balances at end of the year		1,096,516	747,186

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2004

	Share capital <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Statutory surplus reserve <i>Rmb'000</i>	Statutory public welfare fund <i>Rmb'000</i>	Retained profit <i>Rmb'000</i>	Total <i>Rmb'000</i>
<b>2004</b>						
As at 1st January 2004	1,500,000	679,758	—	—	—	2,179,758
Profit for the year	—	—	—	—	385,327	385,327
Special dividend	—	—	—	—	(204,923)	(204,923)
Issue of shares	441,174	—	—	—	—	441,174
Premium on issue of shares	—	299,865	—	—	—	299,865
Share issuance costs	—	(63,490)	—	—	—	(63,490)
Contribution from ultimate holding company (note 33(b))	—	4,739	—	—	—	4,739
Transfer to reserves	—	—	15,687	7,843	(23,530)	—
As at 31st December 2004	1,941,174	920,872	15,687	7,843	156,874	3,042,450
<b>2003</b>						
As at 1st January 2003	1,500,000	1,316,132	—	—	—	2,816,132
Profit for the year	—	—	—	—	315,825	315,825
Profit distribution	—	—	—	—	(146,084)	(146,084)
Capitalisation upon Reorganisation	—	169,741	—	—	(169,741)	—
Distribution to ultimate holding company upon Reorganisation	—	(806,115)	—	—	—	(806,115)
As at 31st December 2003	1,500,000	679,758	—	—	—	2,179,758

## Notes to the Accounts

### 1 Group reorganisation and basis of preparation

IRICO Group Electronics Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 10th September 2004 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the "Reorganisation") effective as of 31st December 2003 with details set out in the Accountants' Report to the Company's prospectus dated on 8th December 2004. The Company issued 1,500,000,000 ordinary shares of RMB1 per share to IRICO Group Corporation in exchange for the core assets and businesses of IRICO Group Corporation relating to production and sale of colour picture tubes ("CPTs") and CPT-related components and materials ("Transferred Businesses"). In addition, the Company completed its initial public offering and placing of shares on 20th December 2004. As a result, the issued share capital of the Company increased from 1,500,000,000 shares to 1,941,174,000 shares. Gross fund raised amounted to approximately HK\$767 million (equivalent to approximately RMB816 million).

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated accounts for the years ended 31st December 2003 and 2004 present the consolidated results and the state of affairs of the Group as if the Reorganisation was effective at the beginning of the earliest period presented.

The accounts have been prepared under the historical cost convention as modified by the revaluation of other investments, in accordance with the accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs"). The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

As the Company was incorporated on 10th September 2004, there are no comparative figures for the Company's balance sheet as at 31st December 2004.

## Notes to the Accounts

### 2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



## Notes to the Accounts

### 2 Principal accounting policies (*continued*)

#### (b) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and any unamortised goodwill / negative goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of fixed assets is calculated to write off the cost of the assets less accumulated impairment losses and estimated residual values using a straight line method over their estimated useful lives as follows:

Land use rights	over the unexpired lease term
Buildings	10-40 years
Machinery for electronics production	15 years
Machinery for glass production	6 years
Other machinery	18 years
Office equipment and others	5 years

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No depreciation is provided on construction in progress.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

## Notes to the Accounts

### 2 Principal accounting policies (*continued*)

#### (c) Fixed assets and depreciation (*continued*)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account. The impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (d) Intangibles

Expenditure on licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

#### (e) Investments

##### (i) Long-term investments

Long-term investments are equity investments held for an identified long term purpose and are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

##### (ii) Other investments

Other investments are investments held for trading purpose and are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## Notes to the Accounts

### 2 Principal accounting policies (*continued*)

#### (f) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

#### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that the outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date.

#### (j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### (k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

## Notes to the Accounts

### 2 Principal accounting policies (*continued*)

#### (l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases and rentals payable net of any incentives received from the leasing company are charged to the profit and loss account evenly over the periods of the respective leases.

#### (m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

#### (n) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

#### (o) Employee benefits

The full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulae. These government-sponsored pension plans are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

## Notes to the Accounts

### 2 Principal accounting policies (*continued*)

#### (p) Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

#### (q) Grants

Grants related to income are deferred and are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate, otherwise grants with no future related costs are recognised on receipt basis.

Grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to profit and loss account on a straight line basis over the expected lives of the related assets.

#### (r) Revenue recognition

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincide with the time when the goods are delivered to customers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Service income is recognised when the relevant service is rendered.

Operating lease rental income is recognised on a straight-line basis over the period of leases.

#### (s) Segment information

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. The Group's revenues, expenses, assets, liabilities and capital expenditures are primarily attributable to the production and sale of CPT. The business segment of other CPT components contributed less than 10 per cent of the revenues, results and total assets of the Group and are not reported separately.

The Group's principal market is Mainland China and its sales to ultimate overseas customers were conducted through certain export agent companies in the Mainland before 13th October 2004. After 13th October 2004, the Company obtained the export right from related authorities and directly sold its products to overseas markets. However, the direct export sales made by the Group contributed less than 10 percent of the revenues and results of the Group. Accordingly, no geographical segment is presented.

## Notes to the Accounts

### 3 Turnover and revenues

The Group is principally engaged in the manufacturing of colour picture tube ("CPT") for coloured television sets, related CPT components including glass bulbs, electron guns, shadow masks and their frames, deflection yokes, frit, anode buttons, phosphor, etc and provision of related packaging, engineering and trading services. Revenues recognised during the year are as follows:

	2004 Rmb'000	2003 Rmb'000
Turnover		
Sales of CPTs	4,466,767	3,888,156
Sales of CPT components	482,916	381,625
	<b>4,949,683</b>	4,269,781
Other revenues		
Interest income	5,524	20,721
Sales of raw materials, scraps and packaging materials	47,154	34,309
Other service income	2,472	5,345
Dividends from long-term investments	396	—
Rental income	940	883
	<b>56,486</b>	61,258
	<b>5,006,169</b>	4,331,039

### 4 Other operating expenses

	2004 Rmb'000	2003 Rmb'000
Cost of raw materials and scraps sold	11,528	8,690
Cost of other services provided	31	4,510
Loss on disposal of fixed assets	7,153	13,104
Other PRC taxes including education and construction levies	24,872	25,396
Provision for doubtful debts	302	1,182
Write-down of inventories to net realisable value	10,278	10,936
Donation	749	2,588
Realised and unrealised losses on other investments	11,814	—
Loss on disposal of a long-term investments	—	3,309
Impairment loss on a long-term investments	5,940	—
Others	6,608	3,889
	<b>79,275</b>	73,604



## Notes to the Accounts

### 5 Operating profit

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Operating profit is stated after (crediting) / charging the following:		
Wages and salaries	409,638	417,050
Retirement benefit contributions	46,769	38,782
Welfare and other expenses	69,861	53,896
Total staff costs excluding directors' emoluments	526,268	509,728
Cost of inventories sold (including cost of raw materials and scraps sold)	3,822,721	3,187,837
Auditors' remuneration	2,083	474
Depreciation	242,819	285,587
Amortisation of intangible assets	54,150	50,315
Operating lease rentals in respect of machinery and equipment	1,500	1,500
Operating lease rentals in respect of land use rights and buildings	35,045	—
Provision for warranty	12,973	16,533
Research and development costs	46,980	31,610
Grant received and amortisation of deferred income on grant received	(4,688)	(4,587)
Gain on disposal of other investments	(1,037)	(2,983)
Write-back of provision for doubtful debts	(5,200)	—

### 6 Finance costs

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Interest on bank loans wholly repayable within five years	55,360	48,829
Finance charge on discounting of bills to banks	7,606	7,759
	62,966	56,588

## Notes to the Accounts

### 7 Taxation

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
PRC enterprise income tax ("EIT") Company and subsidiaries		
— Current	136,243	164,207
— Deferred (note 29)	(1,775)	9,729
	<b>134,468</b>	173,936

The provision for PRC current EIT is calculated based on the statutory income tax rate of 33% of the assessable income of the Company and its subsidiaries as determined in accordance with the relevant PRC income tax rules and regulations for the year except for the Company and certain subsidiaries described in the note below. All corresponding EIT relating to the taxable profit during the year have been recognised in the consolidated profit and loss account.

The Group's effective tax rate differs from the statutory rate principally due to following factors:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Profit before taxation	650,250	623,116
Calculated at statutory rate of 33%	214,583	205,628
Income under tax exemption and reduction (note)	(80,155)	(25,430)
Income not subject to taxation	(2,876)	(2,067)
Expenses not deductible for taxation purpose	2,916	2,513
Tax credit arising from purchase of equipment locally in the PRC	—	(6,708)
	<b>134,468</b>	173,936

## Notes to the Accounts

### 7 Taxation (*continued*)

*Note:*

Companies are entitled to the preferential tax treatment for Opening Up of Western China ("OUWC Policy") if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the OUWC Policy is 15%. From 10th September 2004 to 31st December 2004, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% from 10th September 2004 to 31st December 2004.

IRICO Display Devices Co., Ltd., a subsidiary of the Company, has obtained the approval from the relevant authorities for its entitlement to the OUWC Policy for the year ended 31st December 2003. Accordingly, EIT was accrued for and paid at a rate of 15% for the year ended 31st December 2003. For the year ended 31st December 2004, the operations of IRICO Display Devices Co., Ltd. have met the requirements under the OUWC Policy, and accordingly, EIT has also been provided at 15%.

Xian IRICO Zixun Co., Ltd. was granted the status of high technology company. It is exempted from EIT for 2001 and 2002 and is required to pay EIT at a rate of 15% in 2003 and 2004.

Caizhu (Zhongshan) Electronic Glass Plant was established in 1992 without active operation until 2002. It has been granted the status of high technology company since 2003, and accordingly, EIT was provided at 15% in 2003 and 2004.

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay income tax at 15% for 2003 and 2004.

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a technological economic development zone and is required to pay EIT at a rate of 15% in 2003 and 2004.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, is still in the exemption period. Xianyang IRICO Electronics Shadow Mask Co., Ltd., established in 2003 is in the pre-operating stage and has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

## Notes to the Accounts

### 8 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB189,916,000.

### 9 Dividend / profit distribution

	2004 Rmb'000	2003 Rmb'000
Special dividend (note (a))	204,923	—
Profit distribution (note (b))	—	146,084
	204,923	146,084

Notes:

- (a) As described in note 1 to the accounts, the Reorganisation of the Group was consummated on 31st December 2003 but the formal incorporation of the Company was on 10th September 2004 ("Incorporation Date"). According to the "Provisional Regulations Concerning the Management of State Capital and Certain Accounting Treatment for Enterprises Restructuring into Companies" from the Ministry of Finance of the PRC, all the net profit accrued from the operations of the Transferred Businesses transferred to the Company, as reported under the relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP"), prior to the Incorporation Date was attributable to the ultimate parent company. As a result, the Company was required to make a special distribution which represents the net profit determined under PRC GAAP accrued from the Transferred Businesses from 1st January 2004 to 9th September 2004 (one day before the Incorporation Date, "Immediate Pre-incorporation Date") amounting to RMB204,923,000, to the ultimate parent company (see also Note 31). The special dividend was recorded in due to the ultimate holding company as at 31st December 2004.
- (b) The profit distribution for the year ended 31st December 2003 represented profit distribution paid by the Group to the ultimate holding company prior to the establishment of the Company. The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not meaningful.

No final dividend was declared or proposed for the year ended 31st December 2004.

### 10 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB385,327,000 (2003: RMB315,825,000) and based on the weighted average of 1,516,922,000 (2003: 1,500,000,000) shares in issue, assuming that the 1,500,000,000 shares issued pursuant to the Reorganisation had been in issue throughout both years.

There were no dilutive potential shares during the years ended 31st December 2003 and 2004 and accordingly no diluted earnings per share is presented.

## Notes to the Accounts

### 11 Directors' and senior managements' emoluments

#### (a) Directors' emoluments

Details of emoluments paid and payable to the directors of the Company by the Group in respect of their services rendered for managing the businesses of the Group during the year are as follows:

	2004 Rmb'000	2003 Rmb'000
Fees	163	—
Salaries and allowances	1,996	160
Discretionary bonuses	—	1,384
Retirement benefit contributions	38	26
	<b>2,197</b>	<b>1,570</b>

No directors waived or agreed to waive any emolument during the year. Fee paid to independent non-executive directors amounted to RMB163,000 for the year (2003: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil to RMB1,000,000	12	12

#### (b) Supervisors' emoluments

	2004 Rmb'000	2003 Rmb'000
Fees	55	—
Salaries and allowances	920	70
Discretionary bonuses	—	672
Retirement benefit contributions	21	12
	<b>996</b>	<b>754</b>

## Notes to the Accounts

### 11 Directors' and senior managements' emoluments (*continued*)

#### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2004 include 5 directors (2003: 4) whose emoluments are reflected in the analysis presented in (a) above. The emoluments payable to the remaining individual for the year ended 31st December 2003 were as follows:

	2004 Rmb'000	2003 Rmb'000
Salaries and allowances	—	23
Discretionary bonuses	—	248
Retirement benefit contributions	—	4
	—	275

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

### 12 Retirement benefit schemes and housing benefits

The retirement benefits of full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to monthly pensions made by the Group to these plans ranging from 18% to 20% of the employees' basic salary for the year.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in note 5 and note 11 above.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group was required to contribute on a monthly basis to these funds based on 5% of the salaries of the employees before 30th June 2004. Effective from 1st July 2004, the Group increased its housing fund contribution ratio to 20% of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contribution amounted to RMB11,696,000 for the year ended 31st December 2004 (2003: RMB3,255,000).



## Notes to the Accounts

### 13 Intangible assets

	Group		Company
	2004	2003	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
<b>Licences for technical knowledge</b>			
At beginning of the year / upon incorporation	<b>112,605</b>	145,979	<b>22,412</b>
Additions	<b>8,619</b>	16,941	<b>2,576</b>
Amortisation	<b>(54,150)</b>	(50,315)	<b>(3,454)</b>
At end of the year	<b>67,074</b>	112,605	<b>21,534</b>
Represented by:			
Cost	<b>330,638</b>	322,019	<b>93,178</b>
Accumulated amortisation	<b>(263,564)</b>	(209,414)	<b>(71,644)</b>
	<b>67,074</b>	112,605	<b>21,534</b>

## Notes to the Accounts

### 14 Fixed assets

#### Group

	Land use rights and buildings in the PRC <i>RMB'000</i>	Machinery for electronics production <i>RMB'000</i>	Machinery for glass production <i>RMB'000</i>	Other machinery <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
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#### Cost

At 31st December 2003	471,218	2,397,551	646,603	691,244	102,630	198,407	4,507,653
Additions	10,019	27,317	—	67,854	14,651	1,184,972	1,304,813
Acquisition of a subsidiary	—	126	—	4,577	—	—	4,703
Transfer from construction in progress ("CIP")	7,246	204,665	226,450	33,492	4,217	(476,070)	—
Disposals	(4,087)	(27,419)	(78,524)	(73,172)	(9,809)	—	(193,011)

At 31st December 2004	484,396	2,602,240	794,529	723,995	111,689	907,309	5,624,158
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#### Accumulated depreciation

At 31st December 2003	163,124	1,056,925	413,542	395,847	70,579	—	2,100,017
Charge for the year	24,540	94,021	67,615	46,515	10,128	—	242,819
Disposals	(890)	(22,427)	(72,161)	(70,391)	(8,495)	—	(174,364)

At 31st December 2004	186,774	1,128,519	408,996	371,971	72,212	—	2,168,472
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#### Net book value

At 31st December 2004	297,622	1,473,721	385,533	352,024	39,477	907,309	3,455,686
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At 31st December 2003	308,094	1,340,626	233,061	295,397	32,051	198,407	2,407,636
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## Notes to the Accounts

14 Fixed assets (*continued*)

## Company

	Machinery for electronics production <i>RMB'000</i>	Machinery for glass production <i>RMB'000</i>	Other machinery <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>						
Upon incorporation	754,824	260,617	370,652	71,550	698,558	2,156,201
Additions	11,173	—	29,285	2,433	130,538	173,429
Transfer from CIP	193,698	226,450	25,032	4,071	(449,251)	—
Disposals	(7,861)	—	(1,674)	(5,318)	—	(14,853)
At 31st December 2004	951,834	487,067	423,295	72,736	379,845	2,314,777
<b>Accumulated depreciation</b>						
Upon incorporation	395,556	243,002	124,536	52,724	—	815,818
Charge for the period	8,811	2,757	8,693	2,502	—	22,763
Disposals	(5,611)	—	(897)	(4,134)	—	(10,642)
At 31st December 2004	398,756	245,759	132,332	51,092	—	827,939
<b>Net book value</b>						
At 31st December 2004	553,078	241,308	290,963	21,644	379,845	1,486,838
Upon incorporation	359,268	17,615	246,116	18,826	698,558	1,340,383

At 31st December 2004, the net book value of the fixed assets pledged as security for the Group's short-term bank loans (note 27) amounted to RMB321,973,000 (2003: RMB359,273,000).

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
The Group's interests in land use rights and their net book values are analysed as follows:		
Medium term lease (10 to 50 years)	39,171	27,493
Short-term lease (below 10 years)	325	4,107
	39,496	31,600

## Notes to the Accounts

### 15 Investments in subsidiaries

	Company 2004 <i>Rmb'000</i>
Investments, at cost	
– Listed company in the PRC	1,082,418
– Unlisted	729,857
	<b>1,812,275</b>

The Group's interest in a listed subsidiary in the PRC represents domestic legal person shares which are not freely transferable on the stock market under the prevailing PRC listing rules. Market value is not presented for those shares as such information is not meaningful.

Particulars on the Company's subsidiaries are detailed in note 36.

### 16 Associated companies

	Group 2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Group share of net assets, unlisted	18,218	18,022

Particulars on the Group's associated companies are detailed in note 36.

### 62 17 Long-term investments

	Group 2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Unlisted investments, at cost	33,500	33,621
Provision for impairment loss	(9,440)	(3,621)
	<b>24,060</b>	30,000

Long-term investments substantially comprise the investment in equity interests in Western Trust & Investment Co., Ltd. The directors consider that the underlying value of these investments were not less than their carrying values as at 31st December 2004.

## Notes to the Accounts

### 18 Inventories

	Group	Company	
	2004	2003	2004
	Rmb'000	Rmb'000	Rmb'000
Raw materials	243,496	341,390	158,811
Work-in-progress	281,152	204,397	139,149
Finished goods	415,585	169,751	191,816
Consumables	8,001	7,132	5,471
	948,234	722,670	495,247
Write-down to net realisable value	(17,678)	(17,352)	(7,400)
	930,556	705,318	487,847

At 31st December 2004, inventories that were carried at net realisable value amounted to approximately RMB 120,940,000 (2003: RMB33,065,000).

### 19 Accounts receivable

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. Ageing analysis of accounts receivable at year end are as follows:

	Group	Company	
	2004	2003	2004
	Rmb'000	Rmb'000	Rmb'000
0 to 90 days	605,884	222,029	235,812
91 to 180 days	44,403	20,952	271
181 to 365 days	4,259	15,569	2,284
Over 1 year	3,006	107,970	1,530
	657,552	366,520	239,897
Provision for doubtful debts	(3,006)	(108,419)	(1,530)
	654,546	258,101	238,367

## Notes to the Accounts

### 20 Trade bills receivable

	Group 2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	Company 2004 <i>Rmb'000</i>
0 to 180 days	628,015	1,023,684	130,862

As at 31st December 2004, trade bills receivable amounting to RMB41,319,000 was pledged to secure short-term bank loans (note 27).

### 21 Loan to a subsidiary

	Company 2004 <i>Rmb'000</i>
Loan to a subsidiary	30,000

Loan to a subsidiary is unsecured, carry interest at 5.31% per annum and repayable on 9th November 2005.

### 22 Other investments

	Group 2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Funds - listed in the PRC	2,955	—
Stocks - listed in the PRC	—	2,024
Bonds - listed in the PRC	1,685	2,000
	4,640	4,024

## Notes to the Accounts

## 23 Due from / (to) related parties

	Note	Group 2004 Rmb'000	2003 Rmb'000	Company 2004 Rmb'000
<b>Due from</b>				
Trade balances:	(a)			
China National Electronics Imp. & Exp.				
Caihong Company		—	31,453	—
Shenzhen Hongyang Industry & Trade Co., Ltd.		7,949	3,884	—
Shenzhen IRICO-ROYAL Info-Electronics Ltd.		3,421	6,641	3,421
Shaanxi IRICO Construction Engineering Co. Ltd.		—	8,096	—
Shenzhen IRICO Electronic Co. Ltd.		30	—	—
		<b>11,400</b>	50,074	<b>3,421</b>
<b>Due to</b>				
Trade balances:	(a)			
China National Electronics Imp. & Exp.				
Caihong Company		—	30,361	—
China Electronic Devices Industry (Shenzhen) Co., Ltd.		—	2,854	—
Caihong Labour Services Company		10,218	12,605	2,214
Shenzhen IRICO Electronics Co., Ltd.		7,126	4,149	2,100
Shaanxi IRICO Construction Engineering Co., Ltd.		—	209	—
Xian IRICO Plastic Industry Co., Ltd.		827	998	—
Xianyang Caihong Adhesive Belt Co., Ltd.		1,390	515	453
Xianyang Caihong Electronic Materials Co.		293	—	—
Xianyang Cailian Package Material Company		1,577	—	—
Sakurai Denshikogyo Co., Ltd.		1,694	—	—
		<b>23,125</b>	51,691	<b>4,767</b>
<b>Non-trade balances:</b>				
	(b)			
China National Electronics				
Imp. & Exp. Caihong Company		—	8,264	—
Hainan IRICO Industry and Trading Co., Ltd.		—	2,431	—
The ultimate holding company		349,178	—	263,525
		<b>349,178</b>	10,695	<b>263,525</b>
		<b>372,303</b>	62,386	<b>268,292</b>

Notes:

- (a) The trade balances in respect of sales and purchases are under the Group's normal trading terms.
- (b) Except for amounts of RMB79,000,000 (2003: Nil) of the Group due to the ultimate holding company as at 31st December 2004 which carry interest at 5.31% per annum and are repayable on 9th November 2005, the non-trade balances are unsecured, interest free and have no fixed repayment terms (note 34(i)).



## Notes to the Accounts

### 24 Due to minority shareholders

	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2003</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
	<b>2004</b>	<b>2004</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
Trade balances	<b>4,436</b>	10,046
		<b>1,455</b>

The trade balances in respect of purchases are under the Group's normal trading terms.

### 25 Cash and bank balances

	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2003</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
	<b>2004</b>	<b>2004</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
Pledged balances	<b>21,000</b>	—
Unpledged balances	<b>1,096,516</b>	747,186
		<b>460,465</b>
Cash and bank balances	<b>1,117,516</b>	747,186
		<b>481,465</b>

All the cash and bank balances are denominated in Renminbi and deposited with banks in the PRC except for the equivalent amounts of RMB215,149,000 (2003: RMB798,000) at 31st December 2004 which is denominated in foreign currencies. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31st December 2004, cash and bank balances included deposit of RMB21,000,000 which was pledged to secure short-term bank loans (note 27).

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### 26 Accounts payable

	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2003</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
	<b>2004</b>	<b>2004</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
0 to 90 days	<b>559,390</b>	417,028
91 to 180 days	<b>1,616</b>	9,340
181 to 365 days	<b>186</b>	5,114
Over 1 year	<b>415</b>	297
		<b>71</b>
	<b>561,607</b>	431,779
		<b>342,352</b>

## Notes to the Accounts

### 27 Short-term bank loans

	Group		Company
	2004	2003	2004
	Rmb'000	Rmb'000	Rmb'000
Secured (note (a))	500,000	260,000	200,000
Unsecured (note (b))	920,000	370,000	790,000
	1,420,000	630,000	990,000

Notes:

- (a) Bank loans of approximately RMB300 million (2003: RMB260 million) are secured by certain buildings and machinery of the Group (note 14) as at 31st December 2004. Bank loans of approximately RMB200 million were secured by certain amounts of bank deposits (note 25) and trade bills receivable (note 20) of the Group as at 31st December 2004.
- (b) Bank loans of approximately RMB270 million as at 31st December 2003 were guaranteed by the ultimate holding company. Such guarantee was released during 2004.
- (c) Bank loans bore interests ranging from 3.51% to 5.02% (2003: 4.05% to 5.31%) per annum for the year ended 31st December 2004.
- (d) As at 31st December 2004, the unutilised banking facilities of the Group amounted to approximately RMB570 million.

### 28 Deferred income

Deferred income represents grant received from the United Nations by the Group for its ODS (Ozone Depleting Substance) cleansing replacement project for acquiring machineries to treat the ozone depleting substance produced during the production process. This deferred income is amortised to the profit and loss account on a straight-line basis over the expected lives of the corresponding assets of 5 years.

## Notes to the Accounts

### 29 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 33% except for certain subsidiaries mentioned in note 7 which are subject to tax concession to pay income tax at 15%.

The movements on the deferred tax liabilities / (assets) are as follows:

	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2003</b>
	<b>Rmb'000</b>	<b>Rmb'000</b>
At beginning of the year / upon incorporation	<b>(8,172)</b>	135,357
Deferred taxation (credited) / charged to profit and loss account	<b>(1,775)</b>	9,729
Distribution upon Reorganisation	—	(153,258)
At end of the year	<b>(9,947)</b>	<b>(8,172)</b>
Deferred tax assets	<b>(28,041)</b>	(23,729)
Deferred tax liabilities	<b>18,094</b>	15,557
Net deferred tax (assets) / liabilities as shown in balance sheet	<b>(9,947)</b>	<b>(8,172)</b>

The movements in deferred tax liabilities and assets (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

#### Group

Deferred tax liabilities

	<b>Accelerated tax depreciation</b>	<b>Different tax rate enacted for undistributed profits of a subsidiary</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
At 31st December 2002	141,948	100,293	242,241
Charged to profit and loss account	14,649	19,462	34,111
Distribution upon Reorganisation	(141,040)	(119,755)	(260,795)
At 31st December 2003	15,557	—	15,557
Charged to profit and loss account	2,537	—	2,537
At 31st December 2004	18,094	—	18,094

## Notes to the Accounts

### 29 Deferred taxation (*continued*)

#### Group

##### Deferred tax assets

	Depreciation and amortisation <i>RMB'000</i>	Provision for doubtful debts, inventories and impairment of fixed assets and long-term investments <i>RMB'000</i>	Accrual for staff benefits and welfare <i>RMB'000</i>	Elimination of unrealised profit from intra-group transactions <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 31st December 2002	(20,301)	(68,357)	(3,673)	(193)	(14,360)	(106,884)
Credited to profit and loss account	(2,520)	(2,951)	(6,810)	(6,879)	(5,222)	(24,382)
Distribution upon Reorganisation	14,705	69,342	3,908	—	19,582	107,537
At 31st December 2003	(8,116)	(1,966)	(6,575)	(7,072)	—	(23,729)
(Credited) / charged to profit and loss account	(2,214)	(1,260)	516	(1,354)	—	(4,312)
At 31st December 2004	(10,330)	(3,226)	(6,059)	(8,426)	—	(28,041)

#### Company

##### Deferred tax liabilities

	Accelerated tax depreciation <i>RMB'000</i>
Upon incorporation	2,087
Charged to profit and loss account	450
At 31st December 2004	2,537

## Notes to the Accounts

### 29 Deferred taxation (*continued*)

#### Company

Deferred tax assets

	Provision for doubtful debts, inventories and impairment of fixed assets and long-term investments <i>RMB'000</i>	Accrual for staff benefits and welfare <i>RMB'000</i>	Total <i>RMB'000</i>
Upon incorporation	(1,799)	(1,771)	(3,570)
Charged to profit and loss account	1,569	1,771	3,340
At 31st December 2004	(230)	—	(230)

### 30 Share capital

	Number of domestic shares of RMB 1 each	Number of H shares of RMB 1 each	Total number of shares of RMB1 each	RMB'000
Issued and fully paid:				
Upon the Reorganisation	1,500,000	—	1,500,000	1,500,000
Domestic shares converted to H shares	(44,120)	44,120	—	—
Allotted and issued upon listing of H shares	—	441,174	441,174	441,174
At 31st December 2004	1,455,880	485,294	1,941,174	1,941,174

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The Company was incorporated on 10th September 2004 with an initial share capital of RMB1,500,000,000, all of which were credited as fully paid, in consideration for the transfer of the relevant assets, liabilities and equity interests in various entities to the Company pursuant to the Reorganisation referred to in note 1. These domestic shares rank *pari passu* in all aspects with each other.

The share capital presented in the consolidated balance sheet as at 31st December 2003 represented the initial share capital issued by the Company in exchange of the relevant assets, liabilities and interests in various entities pursuant to the Reorganisation, which was deemed to have been in issue at the beginning of earliest period presented, in accordance with the basis of preparation set out in note 1.

## Notes to the Accounts

### 30 Share capital (*continued*)

During the year, the Company completed its initial public offering and placing of 485,294,000 H shares with a par value of RMB1.00 each at a price of HK\$1.58 (equivalent to RMB1.68) per H share in cash for an aggregate consideration of HK\$767 million (equivalent to approximately RMB816 million), which comprised 441,174,000 new H Shares issued by the Company and 44,120,000 shares issued to the ultimate holding company pursuant to an approval from the State Assets Commission to convert such relevant domestic shares owned by the ultimate holding company into H shares as part of the public offering. As a result, the issued share capital of the Company increased to 1,941,174,000 shares, comprising 1,455,880,000 domestic shares and 485,294,000 H shares, representing 75% and 25% of the issued capital respectively.

The H shares rank *pari passu* in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

### 31 Reserves

Group	Capital reserve <i>Rmb'000</i> <i>(note (b))</i>	Statutory surplus reserve <i>Rmb'000</i> <i>(note (e))</i>	Statutory public welfare fund <i>Rmb'000</i> <i>(note (f))</i>	Retained profit <i>Rmb'000</i> <i>(note (c), (d))</i>	Total <i>Rmb'000</i>
<b>2004</b>					
As at 1st January 2004	679,758	—	—	—	679,758
Profit for the year	—	—	—	385,327	385,327
Special dividend	—	—	—	(204,923)	(204,923)
Premium on issue of shares	299,865	—	—	—	299,865
Share issuance costs	(63,490)	—	—	—	(63,490)
Contribution of ultimate holding company (note 33(b))	4,739	—	—	—	4,739
Transfer to reserves	—	15,687	7,843	(23,530)	—
As at 31st December 2004	920,872	15,687	7,843	156,874	1,101,276
<b>2003</b>					
As at 1st January 2003	1,316,132	—	—	—	1,316,132
Profit for the year	—	—	—	315,825	315,825
Profit distribution	—	—	—	(146,084)	(146,084)
Capitalisation upon Reorganisation	169,741	—	—	(169,741)	—
Distribution to ultimate holding company upon Reorganisation (note (a))	(806,115)	—	—	—	(805,115)
As at 31st December 2003	679,758	—	—	—	679,758

## Notes to the Accounts

### 31 Reserves *(continued)*

#### Company

	<b>Capital reserve</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare fund</b>	<b>Retained profit/ (accumulated loss)</b>	<b>Total</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(note (b))</i>	<i>(note (e))</i>	<i>(note (f))</i>	<i>(note (c), (d))</i>	
Upon incorporation	726,248	—	—	85,776	812,024
Profit for the period	—	—	—	104,140	104,140
Special dividend	—	—	—	(204,923)	(204,923)
Premium on issue of shares	299,865	—	—	—	299,865
Share issuance costs	(63,490)	—	—	—	(63,490)
Transfer to reserves	—	15,687	7,843	(23,530)	—
As at 31st December 2004	962,623	15,687	7,843	(38,537)	947,616



## Notes to the Accounts

*Note:*

- (a) This represented net assets not transferred to the Company from the ultimate holding company upon Reorganisation effective as of 31st December 2003. The Group was not liable for the ownership, creditor's rights, rights, interests, liabilities and obligations (including any potential liabilities and obligations) of these net assets which were retained by the ultimate holding company after the Reorganisation.
- (b) As described in note 1, the accounts of the Group for the years ended 31st December 2003 and 2004 have been prepared as if the Group had been in existence throughout the years and as if the relevant assets, liabilities, equity interests in various entities were transferred to the Company by the ultimate holding company on 1st January 2003. Upon incorporation of the Company on 10th September 2004, the historical net value of the assets, liabilities and interests transferred to the Company were converted into the Company's capital as described in note 30 with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Accordingly, a capital reserve, being the difference between the amount of share capital issued and historical net value of the assets, liabilities and interests transferred to the Company, was presented in the reserves of both the Group and the Company. Separate class of reserves, including retained profits, of the Group prior to the incorporation of the Company were not separately disclosed as all these reserves have been capitalised and incorporated in the capital reserve of the Group and the Company pursuant to the Reorganisation.
- (c) As described in note 1 and 9 to the accounts, the consummation of the Reorganisation was on 31st December 2003. As a result, the net profit derived from the Transferred Businesses from 1st January 2004 to the Immediate Pre-incorporation Date, amounting to RMB85,776,000 was also reported as the profit of the Company for 2004. Retained profit of the Group and the Company upon incorporation of the Company represents the undistributed profit of the Group. Pursuant to the Reorganisation, undistributed profit of the Group for the period from 1st January 2004 to 9th September 2004 was attributable to the ultimate holding company and the Company has agreed to distribute such amount to the ultimate holding company by way of a special dividend (see also note 9). Accordingly, the amount was not capitalised by the Group and the Company upon incorporation of the Company.
- (d) Subsequent to the Reorganisation, in accordance with the relevant PRC regulations and Articles of Association of the Company, retained profit available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with HKFRS. As at 31st December 2004, there is no retained profit available for distribution.
- (e) **Statutory surplus reserve**  
  
In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with PRC GAAP to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital. The Company decided to make a 10% transfer as statutory surplus reserve for the year ended 31st December 2004.
- (f) **Statutory public welfare fund**  
  
In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation determined in accordance with PRC GAAP to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital. The Company decided to make a 5% transfer as statutory public welfare fund for the year ended 31st December 2004.

## Notes to the Accounts

### 32 Commitments

#### (a) Capital expenditure commitments

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	200,308	133,670
— Construction and renovation of production lines for CPT components	181,569	600,280
— Land use rights	—	6,630
	381,877	740,580
Contracted but not provided for		
— Construction and renovation of production lines for CPTs	136,983	77,926
— Construction and renovation of production lines for CPT components	161,056	242,952
	298,039	320,878
	679,916	1,061,458

#### (b) Operating lease commitments

The future aggregate minimum lease rental expense under non-cancellable operating leases are payable in the following periods:

	Land use rights and buildings		Machinery and equipment	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
First year	35,334	—	1,500	750
Second to fifth years	35,190	—	750	—
	70,524	—	2,250	750

## Notes to the Accounts

### 33 Notes to consolidated cash flow statement

#### (a) Cash generated from operations

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Operating profit	713,020	679,766
Interest income	(5,524)	(20,721)
Dividend income	(396)	—
Loss on disposal of fixed assets	7,153	13,104
Provision for / (write-back of) doubtful debts	(4,898)	1,182
Write-down of inventories to net realisable value	10,278	10,936
Realised and unrealised loss / (gain) on other investments	10,777	(2,983)
Loss on disposal of long-term investments	—	3,309
Impairment loss on long-term investments	5,940	—
Depreciation	242,819	285,587
Amortisation of deferred income on grants received	(3,475)	(2,613)
Amortisation of intangible assets	54,150	50,315
Operating profit before changes in working capital	1,029,844	1,017,882
Decrease / (increase) in accounts and trade bills receivable	48,902	(295,811)
Increase in inventories	(226,741)	(260,984)
(Increase) / decrease in other receivables, deposits and prepayments	(67,405)	22,658
Decrease in due from related parties and minority shareholders — trade	38,674	9,812
Increase in accounts and trade bills payable	40,958	154,547
Decrease in other payables and accruals	(15,092)	(81,188)
(Decrease) / increase in due to related parties and minority shareholders — trade	(34,176)	12,330
Net cash generated from operations	814,964	579,246

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## Notes to the Accounts

### 33 Notes to consolidated cash flow statement (*continued*)

#### (b) Acquisition of a subsidiary

	2004 RMB'000
Net assets acquired	
Fixed assets	4,703
Inventories	8,775
Accounts and other receivables	48,047
Cash and bank balances	37,583
Accounts and other payables	(68,464)
Minority interests	(7,655)
	22,989
Contribution from ultimate holding company	(4,739)
	18,250
Satisfied by cash	18,250

Analysis of the net inflow in respect of the acquisition of a subsidiary:

	2004 RMB'000
Cash consideration	(18,250)
Cash and bank balances acquired	37,583
Net cash inflow in respect of the acquisition a subsidiary	19,333

## Notes to the Accounts

### 33 Notes to consolidated cash flow statement (*continued*)

#### (c) Analysis of changes in financing during the year

	Share capital and capital reserve <i>Rmb'000</i>	Amounts due to related companies — non-trade <i>Rmb'000</i>	Minority interests <i>Rmb'000</i>	Short-term and long-term bank loans <i>Rmb'000</i>	Dividend payable <i>Rmb'000</i>	Pledged bank balances <i>Rmb'000</i>
At 31st December 2002	2,816,132	242,063	912,836	1,160,000	87,614	—
Profit distribution declared	(146,084)	—	—	—	146,084	—
Minority share of profit	—	—	133,355	—	—	—
Dividend payable to minority shareholders	—	—	(272)	—	—	—
Transfer from retained profit	315,825	—	—	—	—	—
Distriubtion to ultimate holding company upon Reorganisation	(606,115)	—	—	—	—	—
Cash outflow from financing	(200,000)	(231,368)	(38,759)	(100,000)	(87,614)	—
At 31st December 2003	2,179,758	10,695	1,007,160	1,060,000	146,084	—
Special dividend declared	—	204,923	—	—	—	—
Minority share of profit	—	—	130,455	—	—	—
Minority interests arising from acquisition of a subsidiary	—	—	7,655	—	—	—
Contribution from ultimate holding company	4,739	—	—	—	—	—
Unpaid share issuance costs	(26,417)	—	—	—	—	—
Cash inflow/(outflow) from financing	703,966	133,560	(16,404)	360,000	(146,084)	(21,000)
At 31st December 2004	2,862,046	349,178	1,128,866	1,420,000	—	(21,000)

## Notes to the Accounts

### 34 Related party transactions

Significant related party transactions, which in the opinion of the directors, were carried out in the normal course of the Group's business are as follows:

<b>(Income) / expenses</b>	<b>Note</b>	<b>2004 RMB'000</b>	<b>2003 RMB'000</b>
Purchase of raw materials and services	(a)		
China National Electronics Imp. & Exp. Caihong Company	(b)	<b>246,526</b>	454,459
Caihong Labour Services Company		<b>103,447</b>	94,329
Shannxi IRICO General Service Corporation		<b>50,082</b>	40,295
Xianyang Cailian Packaging Materials Co., Ltd.		<b>26,416</b>	29,676
Shenzhen IRICO Electronics Co., Ltd.		<b>12,874</b>	15,821
Xianyang Caihong Adhesive Belt Co., Ltd.		<b>5,242</b>	5,671
Xian Caihong Plastic Co., Ltd.		<b>11,731</b>	2,854
Shenzhen Hongyang Industry & Trade Company		<b>1,621</b>	—
		<b>457,939</b>	643,105
Sale of goods	(a)		
China National Electronics Imp. & Exp. Caihong Company	(b)	<b>(347,015)</b>	(638,156)
Shenzhen Hongyang Industry & Trade Company		<b>(32,920)</b>	(30,255)
IRICO Utilities Plant		<b>(32,248)</b>	(22,774)
Shannxi IRICO General Service Corporation		<b>(592)</b>	(397)
Shenzhen IRICO-ROYAL Info-Electronics Ltd.		<b>(585)</b>	(477)
Caihong Labour Services Company		<b>(154)</b>	(169)
Shenzhen IRICO Electronics Co. Ltd.		<b>(58)</b>	—
Xian IRICO Electric Co., Ltd		<b>(109)</b>	—
		<b>(413,681)</b>	(692,228)
Rental expense to Xian Guangxin Electronics Co., Ltd.	(c)	<b>1,500</b>	1,500
Trademark licence fee to the ultimate holding company	(d)	<b>4,950</b>	2,850
Utility charges to IRICO Utilities Plant	(e)	<b>420,761</b>	344,886
Rental expense to the ultimate holding company	(f)	<b>35,045</b>	—
Social and ancillary service charges to the ultimate holding company	(g)	<b>14,064</b>	—
Management fee from the ultimate holding company	(h)	<b>(8,172)</b>	(10,941)
Loans from the ultimate holding company	(i)	<b>(79,000)</b>	—
Interest income		<b>—</b>	(11,751)

## Notes to the Accounts

### 34 Related party transactions (*continued*)

Notes:

- (a) Sales to and purchases from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.
- (b) Sales to and purchase from China National Electronics Imp. & Exp. Caihong Company were discontinued before the listing of the Company.
- (c) Rental expense of machinery and equipment at RMB125,000 per month paid to Xian Guangxin Electronics Co., Ltd., a fellow subsidiary of the Group, was determined based on the terms stipulated in a lease agreement entered into between the parties involved. The lease agreement was signed on 28th June 2001 for a period of three years and was renewed for another two and a half years up to 31st December 2006.
- (d) Licence fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, IRICO Display Devices Co. Ltd., the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31st December 2006. In accordance with the agreement signed by the rest entities of the Group, the licence fee is to be paid from 1st January 2004 and the agreement is for a term of 3 years up to 31st December 2006 unless terminated by either party with a three-month prior notice.
- (e) Various kinetic energy charges were paid / payable by the companies of the Group to IRICO Utility Plants based on the agreed rates for the years ended 31st December 2003 and 2004 respectively.
- (f) From 1st January 2004, the Group is required to pay RMB11 per square metre per annum for the use of land use rights and RMB9 and RMB30 per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the year ended 31st December 2004 amounted to RMB35,045,000.
- (g) Social and ancillary service charges for the provision of staff welfare services are paid / payable to the ultimate holding company on a cost reimbursement basis.
- (h) Management fee received/receivable from IRICO Utilities Plant, a unit of the IRICO Colour Picture Tube Plant held by the ultimate holding company, was levied based on 3% of the sales amount of IRICO Utilities Plant for financing and management service provided by the Group as agreed by the parties involved. This transaction was discontinued upon the incorporation of the Company.
- (i) Pursuant to an agreement entered into on 16th December 2004, the Company transferred its titles of certain loans to subsidiaries to the ultimate holding company on 19th December 2004 and offset its amount due to the ultimate holding company. Such loans amount to RMB79,000,000 as at 31st December 2004, which are unsecured, carry interest at 5.31% per annum and are repayable on 9th November 2005 (note 23(b)).

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### 35 Ultimate holding company

The directors regard IRICO Group Corporation, a company established in China, as being the ultimate holding company.



## Notes to the Accounts

### 36 Particulars of subsidiaries and associated companies

As at 31st December 2004, the Company has direct and indirect interests in the following subsidiaries and associated companies, all of which were established in the PRC.

Company name	Registered capital	Attributable equity interest	Principal activities
<b>Subsidiaries</b>			
<i>Directly held:</i>			
IRICO Display Devices Co., Ltd.	RMB421,148,800	56.14%	Production and development of the electronic products and raw materials for colour display devices
IRICO Kunshan Industry Co., Ltd. (note (1))	RMB60,000,000	80%	Production of the rubber parts of CPTs
Shaanxi IRICO Phosphor Material Co., Ltd.	RMB90,000,000	45%	Production of phosphor for various types of CPTs
Xian IRICO Zixun Co., Ltd. (note (2))	RMB130,000,000	45%	Production and sales of the parts and components for display devices and the electronic communication products
Xianyang Caiqin Electronic Device Co., Ltd.	RMB25,000,000	87.16%	Production and sales of pin, anode button, multi-form and frit for CPTs
Xianyang IRICO Electronic Parts Co., Ltd.	RMB55,000,000	60%	Sales of shadow mask, frames and electronic products for CPTs
Xianyang IRICO Electronics Shadow Mask Co., Ltd.	US\$5,000,000	75%	Development and production of the flat shadow mask and the coordinating products for CPTs
Zhuhai Caizhu Industrial Co., Ltd. (note (3))	RMB50,000,000	90%	Manufacture of electronic devices and components

## Notes to the Accounts

### 36 Particulars of subsidiaries and associated companies (*continued*)

Company name	Registered capital	Attributable equity interest	Principal activities
<b>Subsidiaries</b> ( <i>continued</i> )			
IRICO Display Technology Co., Ltd.	US\$2,500,000	75%	Production and sale of CPTs, black-and white picture tubes and ancillary electronic components
Xianyang IRICO Digital Display Co., Ltd. (note (4))	RMB650,000,000	51%	Production and sales of CPTs
<i>Indirectly held:</i>			
Beijing Goldenbridge Translation Portnetwork Co., Ltd.	RMB40,000,000	70%	Provision of technical service relating to network information
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	75%	Production and sales of frit for CPTs
Caizhu (Zhongshan) Electronic Glass Plant	RMB5,500,000	100%	Development of special paper products, and the production of frit for CPTs
Kunshan Caihong Yingguang Electronics Co., Ltd	US\$4,500,000	60%	Production of procession alloy and other products for colour and black and white picture tubes
Nanjing Reide Phosphor Co., Ltd.	US\$443,300	45%	Production and processing of recycled phosphor and related products for various types of CPT
<b>Associated companies — indirectly held</b>			
Caihua Development Co., Ltd.	RMB10,000,000	42.5%	Sales of household electrical appliances
Xian IRICO Plastic Industry Co., Ltd.	RMB10,000,000	30%	Production of deflection yoke spacers and balancers for colour display devices
Xian New Century International Club Co., Ltd.	RMB48,000,000	41.67%	Provision of catering services and the operation of amenity centers

## Notes to the Accounts

### 36 Particulars of subsidiaries and associated companies (*continued*)

Notes:

- (1) The company is a stated-owned enterprise established in the PRC on 20th June 1990 and converted to a limited liability company on 7th September 2004. It is directly held by the Company at 80% and indirectly held at 7.5%.
- (2) The company is directly held by the Company at 45% and indirectly held at 31%.
- (3) The company is a state-owned enterprise established in the PRC on 9th January 1990 and converted to a limited liability company on 2nd September 2004.
- (4) The company is directly held by the Company at 51% and indirectly held at 28%.

### 37 Approval of accounts

The accounts were approved by the board of directors on 24th March 2005.